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REVENUE INCREASE OPTIONS

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

JULY 7, 8, 9, AND 15, 1987

Part 3 of 3

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Art Institute of Chicago, Quinn E. Delaney, letter 2015
(Similar letters were also received from the following Trustees of the Art Institute of Chicago: Warren L. Batts, Premark International; H. Laurence Fuller, Amoco Corporation; Charles A. Meyer, Chicago, Ill. [also for the Children's Memorial Medical Center, Cradle Society of Evanston, and Lake Forest College]; Edward Byron Smith, Northern Trust Company; and Elizabeth B. Tieken, Chicago, Ill. [also for the Field Museum]).
(Similar letters were also received on behalf of the Chicago Academy of Sciences: Allan E. Bulley, Jr., Bulley & Andrews; John H. Cynkar, Coopers & Lybrand; and Christopher Dunn, Chicago, Ill.).
(Similar letters were also received on behalf of the John G. Shedd Aquarium of Chicago: William J. Cullerton, The Cullerton Company; Benjamin F. Lenhardt, Jr., First National Bank of Chicago; Robert D. Krebs, Chicago, Ill.; J. Donald Higgis, Harris Bank; John Shedd Schweppe, M.D., Chicago, Ill.; and D. Gideon Searle, The Serafin Group).
(Similar letters were also received on behalf of the Lyric Opera of Chicago: Edward Byron Smith, Northern Trust Company; and Louise Smith, Northern Trust Company).
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(Similar letters were also received on behalf of the Lyric Opera of Chicago: Edward Byron Smith, Northern Trust Company; and Louise Smith, Northern Trust Company).

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  (Similar letters were also received on behalf of the John G. Shedd Aquarium of Chicago: William J. Cullerton, The Cullerton Company; Benjamin F. Lenhardt, Jr., First National Bank of Chicago; Robert D. Krebs, Chicago, Ill.; J. Donald Higgis, Harris Bank; John Shedd Schweppe, M.D., Chicago, Ill.; and D. Gideon Searle, The Serafin Group).

  (Similar letters were also received on behalf of the Lyric Opera of Chicago: Edward Byron Smith, Northern Trust Company; and Louise Smith, Northern Trust Company).

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REVENUE INCREASE OPTIONS

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LARRY R. GALE, Director

August 25, 1987

The Honorable Dan Rostenkowski, Chairman
House Committee on Ways and Means
2111 Rayburn House Office Building
Washington, D. C. 20515-4061

Dear Mr. Chairman:

I am writing to oppose the staff proposal before your Committee to double the manufacturers' excise tax on sporting arms and ammunition.

For many years the firearms excise tax has funded the Federal Aid to Wildlife Restoration Act with substantial positive results in enhancing wildlife populations in Missouri and other states. This program often has been cited as a prime example of federal-state cooperation.

We believe that any increase in the tax with diversion to the General Treasury might result in a loss of revenue to the states, and a lessening of the general support from citizens paying the tax which has been well supported over the years.

We urge your Committee to reject this proposal as a means of reducing the national deficit.

Sincerely,

Larry R. Gale

LARRY R. GALE
DIRECTOR

LRG/ts

cc: Congressman Richard A. Gephardt

COMMISSION

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NATIONAL RIFLE ASSOCIATION OF AMERICA
INSTITUTE FOR LEGISLATIVE ACTION
1600 RHODE ISLAND AVENUE, N.W.
WASHINGTON, D.C. 20036

July 9, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Leonard:

The National Rifle Association of America request that this letter be made a part of the hearing record on Revenue Increase Options currently being conducted by the House Committee on Ways and Means.

The June 25, 1987 pamphlet entitled: "Joint Committee on Taxation, Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means" for the use of the Committee in its consideration of the fiscal year 1988 Budget Resolution, contains two options which, if enacted, would negatively impact millions of sportsmen and hunters throughout the nation.

The first option would increase firearms licensing fees and the second option would double the present excise taxes on firearms.

Sportsmen are dedicated to preserving our nation's wildlife resources and never hesitate to pay their own way for firearms licensing fee's, Federal Duck Stamps, and excise taxes on firearms. They acknowledge that these fees and excise taxes allow not only them, but millions of other Americans to benefit from wildlife programs nationwide under the Wildlife Restoration Act, better known as the Pittman-Robertson program. Regulatory functions by the Bureau of Alcohol, Tobacco and Firearms should continue to be funded from general revenues rather than specific fees. Further, any contemplated increase in licensing fees would only discriminate against small businesses that sell firearms and are least likely to be able to afford an increase.

Over $108 million is available to the states this year alone to carry out wildlife restoration projects under the Pittman-Robertson program. One-half of the taxes on handguns and archery equipment is distributed to the States to finance hunter education programs. Since the Pittman-Robertson Act was signed in September, 1937, over $1.5 billion has been distributed to States, making possible the successful restoration of many of this country's most popular wildlife species.

As the Pittman-Robertson program celebrates its 50th anniversary this year it would be completely inappropriate to require that the nation's deficit reduction should be shouldered on the backs of sportsmen. Sportsmen and law abiding gunowners support the Pittman-Robertson excise tax program because it results in greater recreational opportunities for all. However, should they be asked to pay more than their fair share as suggested, they could very well take the lead in repealing the Pittman-Robertson Act.

The NRA, on behalf of sportsmen, respectfully requests these Joint Committee on Taxation options not be considered as reconciliation targets.

Sincerely,

James Jay Baker

James Jay Baker
Director
Governmental Affairs

Working for the Nature of Tomorrow

NATIONAL WILDLIFE FEDERATION, 1412 Sixteenth Street, N.W., Washington, D.C. 20036-2266 (202) 797-6800
Office of the President

August 5, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
 and Joint Committee on Taxation
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rostenkowski:

The staffs of the Joint Committee on Taxation and the Committee on Ways and Means have developed an option to increase government revenues by doubling the manufacturers' excise tax on sporting arms and ammunition and diverting this money into the general treasury. The National Wildlife Federation (NWF) opposes this option because it seeks to balance the budget -- a responsibility of all U.S. citizens -- at the expense of the Nation's 17 million sportsmen and women.

Altering this tax by diverting a portion of it into the general treasury breaches a longstanding trust with sportsmen who, for 50 years, have supported and paid this tax knowing the money was being spent to conserve America's wildlife resources. I urge you to restore this trust by abandoning further consideration of the firearms excise taxes option.

Sincerely,

Jay D. Hair

JAY D. HAIR

GOVERNOR
GARREY CARRUTHERS

DIRECTOR AND SECRETARY TO THE COMMISSION
HAROLD F. OLSON

State of New Mexico

DEPARTMENT OF GAME AND FISH

[illegible]
SANTA FE
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STATE GAME COMMISSION

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SILVER CITY

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GALLUP

THOMAS P. ARVAS, O.D.
ALBUQUERQUE

BOB JONES
DELL CITY, TX

September 3, 1987

The Honorable Dan Rostenkowski
Chairman
House Committee on Ways and Means
2111 Rayburn House Office Building
Washington, D. C. 20515-4061

Dear Chairman Rostenkowski:

I've just had the opportunity to review the proposal describing possible options to increase revenues which was prepared for the Committee on Ways and Means. This report is apparently before your Committee and proposes a doubling of the manufacturer's excise tax on sporting arms and ammunition. I urge the Committee not to adopt this proposal.

The Pittman-Robertson Program, which went into effect in 1936, has proven to be a highly successful means of funding wildlife programs all across the Nation. In New Mexico, it has been an absolute necessity in funding our wildlife management programs and has been highly supported by our sporting public. Any increase in this tax is likely to be devastating to this activity. The impact which a doubling of this tax would have is unimaginable. The intent of the Pittman-Robertson Act was for the users to pay a substantial portion of the wildlife management activity costs. Increasing the tax and using the increase to reduce the national debt would build a great gap in the confidence our sporting public would have in the true user-pay concept as is currently being promoted. Again, I urge you not to adopt this proposal.

Thank you for your time and consideration.

Sincerely,

Harold F. Olson

Harold F. Olson
Director

jal

August 7, 1987

Dear Congressman Rostenkowski,

It has been brought to my attention that the 10% main excise tax on handguns and the 11% main excise tax on rifles, shotguns, and ammunition might be doubled. I understand that the extra money is to go towards the national deficit instead of to wildlife restoration, which it has financed since 1937. I question why a particular group of individuals, who are preserving our heritage, must pay for something they did not create.

As a sportsman, I did not mind paying the previous tax. It went towards the preservation of wildlife and for the care of our national parks and state game lands. This I can see. What I can not see iswhy one particular group of individuals must bear the burden for the whole nation. Why not institute a tax on a general commodity and then use this money to help pay the national deficit? It would be more fair.

Sincerely,

B. P. Richards

Identical letters were submitted by the following, all of White Haven, Pennsylvania:

Ms. Elizabeth W. Richards
Mr. Manley C. Richards
Ms. Marie K. Richards
Ms. Melissa L. Richards
Ms. Michelle M. Richards

State of Vermont

AGENCY OF NATURAL RESOURCES
103 South Main Street, 10 South
Waterbury, Vermont 05676

DEPARTMENT OF FISH AND WILDLIFE

Department of Fish and Wildlife
Department of Forests, Parks, and Recreation
Department of Environmental Conservation
State Geologist
Natural Resources Conservation Council

August 10, 1987

Representative Dan Rostenkowski
Chairman, House Ways and Means Committee
United States House of Representatives
Washington, D.C. 20510

Dear Representative Rostenkowski:

I urge you to resist looking at the Federal Aid to Wildlife Restoration Program as a source of revenue to reduce our federal budget deficit. That particular fund for the last half century has served as the backbone for funding wildlife management and research efforts across the nation and represents the single most successful program of its type in the world.

The Pittman-Robertson Fund; as the Wildlife Restoration Program is called (or PR for short), is funded by conservationists who pay an excise tax on sporting arms and ammunition. The 1.7 billion dollars raised so far are to a great extent, responsible for the the wildlife populations and public lands which we all enjoy.

Diversion of this fund would represent a blow to sportsmen and the general public and deter successful wildlife restoration efforts nationwide.

The details of the PR program are well stated and documented in a book entitled Restoring America's Wildlife prepared by the Fish and Wildlife Service of the Department of Interior. President Reagan's opening message in this publication is well worth reading and provides a good summary of the programs broad accomplishments.

I'd be glad to provide you more local information on what the PR program has accomplished in Vermont if you wish.

Sincerely,

Steve E. Wright
STEVE E. WRIGHT
Commissioner

SEW/svb.89
cc: Rep. James Jeffords

Regional Offices - Barre/ Essex Jct./ Pittsford/N. Springfield/ St. Johnsbury

JACK S. WAYLAND
Director

STATE OF WASHINGTON
DEPARTMENT OF GAME
600 North Capitol Way, GJ-11 • Olympia, Washington 98504-0091 • (206) 753-5700

August 25, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
Longworth House Office Building
Washington, DC 20515

Dear Chairman Rostenkowski:

The Washington Department of Wildlife is seriously concerned with the staff proposal before your Committee that would double the manufacturer's excise tax on sporting arms and ammunition. We recommend the Committee not adopt this proposal.

The taxes which fund the Federal Aid to Wildlife Restoration Act (Pittman-Robertson or P-R program) have provided the state wildlife managing agencies significant opportunities to address the needs of wildlife research and management. The Act has been one of the most successful legislative contributions to wildlife.

Increasing the tax, much less doubling it, will cripple this successful program and the wildlife programs of the state fish and wildlife managing agencies. We feel that diverting any increase to the general treasury would be a breach of the Congressional intent for the use of those monies, and in the faith with the manufacturers and wildlife enthusiasts who have paid these fees for over 50 years.

While we recognize the efforts of your Committee to reduce the Nations's budget deficit, we want to emphasize that this agency and others, depend on this successful, cooperative, user fee and budget neutral program.

Again, we urge your Committee not to use the P-R program and it's wildlife monies as a means to reduce the national deficit.

Sincerely,

THE DEPARTMENT OF WILDLIFE

Jack S Wayland

Jack S. Wayland
Director

JSW:tc

Wildlife Management Institute

Suite 725, 1101 14th Street, N.W., Washington, D.C. 20005 • 202/371-1808

LAURENCE R. JAHN
President
LONNIE L. WILLIAMSON
Vice-President
DANIEL A. POOLE
Board Chairman

July 15, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

Options for increasing revenues developed by staffs of the Joint Committee on Taxation and the Committee on Ways and Means include doubling the manufacturers' excise tax on sporting arms and ammunition. The Wildlife Management Institute urges the Committee to suspend further consideration of that option.

For 50 years, receipts from the 11 percent excise tax on long guns and ammunition have supported the Federal Aid in Wildlife Restoration Program. Receipts from the 10 percent tax on handguns have bolstered that program since 1970. Those monies are apportioned to state wildlife agencies and comprise the backbone of this nation's wildlife restoration effort.

States, sportsmen, conservation groups and the sporting arms and ammunition industry are very sensitive about proposals that threaten the Federal Aid Program. All, however, support the taxes and their current use. They strongly oppose action that might weaken this vital source of wildlife restoration funds.

We believe that doubling the taxes for general revenue purposes would be a serious disservice to supporters and public beneficiaries of the existing taxes. Sporting arms and ammunition sales could be affected, thereby reducing those revenues currently supporting wildlife. The resource could lose needed support, state wildlife budgets could be lowered, sportsmen would have half of their "special" taxes diverted to "general" purposes, and the already depressed industry would be burdened further. We believe that budget-balancing taxation should be the responsibility of all citizens, not targeted to particular groups, especially those that have volunteered to pay additional taxes for specific purposes.

Therefore, we urge that the option to increase excise taxes on sporting arms and ammunition be rejected.

Sincerely,

Lonnie L. Williamson

Lonnie L. Williamson
Vice-President

DEDICATED TO WILDLIFE SINCE 1911

THE STATE OF WYOMING

MIKE SULLIVAN
GOVERNOR

Game and Fish Department

BILL MORRIS
DIRECTOR

September 1, 1987

The Honorable Dan Rostenkowski, Chairman
House Committee on Ways and Means
2111 Rayburn House Office Building
Washington, D.C. 20515-4061

Dear Mr. Chairman:

I am writing to express my concern with the staff proposal before your committee that would double the manufacturers excise tax on sporting arms and ammunition. I urge you not to adopt this proposal.

As you may know, the excise tax funds the Federal Aid To Wildlife Restoration Act, or Pittman-Robertson Program. This program is an extremely important funding source to many state wildlife conservation agencies. Wyoming is no exception. In fiscal year 1987, Pittman-Robertson funds distributed to this agency totalled over $2 million. These funds were used to improve wildlife habitat, control wildlife diseases, conduct wildlife research, and collect vital management data on a host of free-ranging wildlife species. Pittman-Robertson funds have played an important part in making Wyoming the nation's crown jewel of wildlife conservation.

Increasing this tax can only serve to cripple this successful program. It would erode broad-based support for wildlife programs. It is an obvious disservice to the manufacturers and sportsmen who have supported this user fee since 1936. Further, it is an obvious breach of the Congressional intent for the use of Pittman-Robertson funds.

This excise tax is a fine example of the private sector, the resource-using public, and state and federal government working cooperatively to benefit our nation's wildlife. It is a "user pays" program, and is thus budget neutral. It is sound, both fiscally and philosophically. I urge you to find other more effective ways to reduce the national deficit.

Sincerely,

Bill Morris

Bill Morris
Director

BM:cs
cc: Senator Malcolm Wallop
Senator Alan K. Simpson
Representative Dick Cheney
Jack Barryman

Headquarters: 5400 Bishop Boulevard, Cheyenne, Wyoming 82002

COMMENTS OF RICHARD BARNETT, CHAIRMAN

ALLIANCE FOR RESPONSIBLE CFC POLICY
1901 N. FT. MYER DRIVE, SUITE 1204
ROSSLYN, VIRGINIA 22209
(703) 841-9363

Good morning Mr. Chairman, Members of the Committee. My name is Richard Barnett, I am Vice President and General Manager of York International, Central Environmental Systems Division, in York, Pennsylvania. I am appearing on behalf of the members of the Alliance for Responsible CFC Policy, a coalition of more than 500 users and producers of chlorofluorocarbons (CFCs) in the United States.

The Alliance is here today to express concern for the proposed tax on CFCs being considered as a revenue raising option. This proposal is the wrong policy at the wrong time as it could interfere with delicate international negotiations on CFC controls and would further disadvantage U.S. industry in its efforts to remain competitive in the world marketplace.

Perhaps most disturbing is the signal that this action would send to world competitors with whom we are now negotiating an international agreement for the protection of the ozone layer. These complicated negotiations under the auspices of the United Nations Environment Programme (UNEP) are expected to produce an international agreement to control CFCs by the end of 1987. This is not now the time for the United States to indicate its intent that it is once again going to pursue the failed policy of unilateral action on CFC compounds.

In 1978, the U.S. banned the use of CFCs in aerosol spray cans. One EPA study estimated the cost to the U.S. economy from this action to be $1 billion and the loss of 8,700 jobs. Few countries followed this action. Today, aerosol sprays are still the single largest use of CFCs outside the United States. The lesson is clear--unilateral action served only to penalize the U.S. economy and produced little environmental benefit.

Recognizing the environmental ineffectiveness of unilateral action as well as the economic disadvantages to U.S. consumers, the CFC Alliance has urged that efforts to address the need for and implementation of further CFC controls be pursued at the international level. In 1985, the Vienna Convention for Protection of the Ozone Layer was signed by more than twenty countries to establish a framework for international cooperation and information exchange on the need for control measures to protect the ozone layer.

During 1986 and 1987, government, industry, and environmental organizations in the United States have exhibited a remarkable level of cooperation in assessing the scientific basis and economic feasibility of possible control measures on CFCs. This process has also had a significant beneficial impact on the negotiations at UNEP which resumed last December. Our government, industry, and environmental organization representatives have exhibited substantial leadership in the development of the CFC protocol agreement.

The UNEP negotiations are expected to produce an agreement by the end of this year. The agreement is likely to include all major producer nations as well as many significant consumer nations. The negotiations are attempting to obtain an agreement that is both environmentally protective and economically feasible. Now is not the time to alter the balance in these negotiations by pursuing a unilateral program such as a tax on CFCs.

As a policy in the United States, a tax on these compounds is likely to siphon off money needed by U.S industries to pursue the research and development necessary to find new CFC compounds, and to develop products utilizing these compounds. Currently, CFCs are widely utilized because of their desirable properties. They are non-toxic, non-flammable, non-corrosive, non-carcinogenic, and very enery efficient in their applications. They are used in many essential industries including air conditioning and refrigeration, automotive, electronics, food processing, plastic-foams and rigid insulation foam, and many others. We have estimated the annual value of goods and services in the U.S directly related to CFCs to be greater than $28 billion. Direct employment is more than 715,000 jobs.

Although the use of current compounds such as CFC-22 can be expanded to replace fully-halogenated CFCs in some applications, both industry and government agree on the need to develop new compounds to replace many of the current CFC uses. EPA's own expert panel concluded that this process could take 4-10 years.

This development process has already begun. In our view, no additional incentive is necessary to spur this development. A tax at this time will be onerous to society which presently has few alternatives to critical needs in refrigeration, electronics, energy conservation and other applications. At its worst, the tax could slow down the development process by taking funds away from the industries' research and development programs.

Furthermore, it should also be pointed out that a policy that taxes compounds that are considered to be part of the solution and not part of the problem, such as CFC-22, could be counterproductive and actually discourage pursuit of some of potential CFC alternatives.

Analysis performed by the economic consulting firm of Putnam, Hayes and Bartlett, of Washington, D.C., has projected that a freeze on the production of these compounds is likely to cause significant immediate price increases in CFCs. The cost to the U.S. economy from a freeze alone is estimated to be greater than $1 billion by the year 2000. In actuality, the UNEP agreement is likely to go much further than a freeze, e.g., as much as 20% reduction in CFC emissions has been reported to be possible, therefore, it is not unreasonable to conclude that the costs will be much higher than $1 billion.

A CFC tax would only worsen this economic penalty on the U.S users and consumers with no similar effect on our world competitors. This is precisely the type of penalty that we have tried to avoid by pursuing the international negotiations at UNEP.

Finally, as can be some from the attached chart on the estimated value of imports and exports of products used or made with CFCs, the trade impacts could be significant for U.S. industries. It would be difficult or impossible to develop a fair monitoring system to try to impose a tax on some of the imported products containing or made with CFCs.

The U.S. industry has urged the government to support a policy on CFCs that protects the environment and U.S. jobs. An international agreement to accomplish these two objectives is within our grasp. To revert now to old policies that can only hurt U.S. consumers and our competitiveness worldwide would be a tragedy for world environmental progress and for the United States.

Thank you.

CFC - AN ECONOMIC PORTRAIT OF THE CFC UTILIZING INDUSTRIES IN THE UNITED STATES

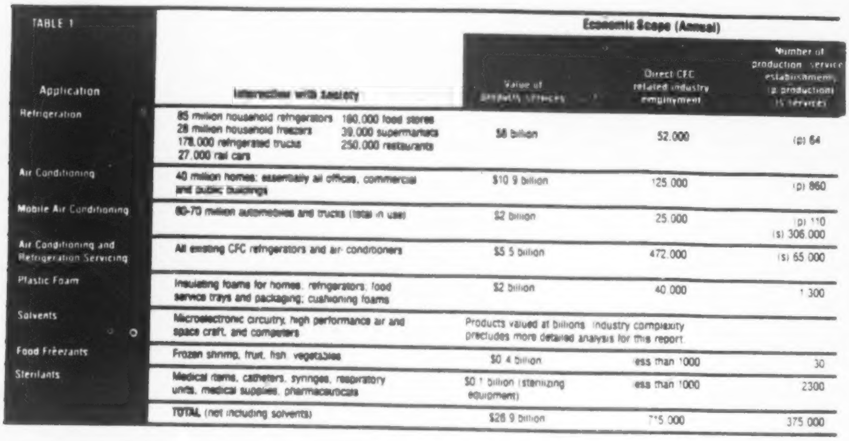

TABLE 1

Application	Interaction with Society	Economic Scope (Annual)		
		Value of products/services	Direct CFC related industry employment	Number of production/service establishments (p) production (s) services
Refrigeration	85 million household refrigerators 28 million household freezers 178,000 refrigerated trucks 27,000 rail cars 180,000 food stores 39,000 supermarkets 250,000 restaurants	$8 billion	52,000	(p) 64
Air Conditioning	40 million homes; essentially all offices, commercial and public buildings	$10.9 billion	125,000	(p) 860
Mobile Air Conditioning	60-70 million automobiles and trucks (total in use)	$2 billion	25,000	(p) 110 (s) 306,000
Air Conditioning and Refrigeration Servicing	All existing CFC refrigerators and air conditioners	$5.5 billion	472,000	(s) 65,000
Plastic Foam	Insulating foams for homes, refrigerators; food service trays and packaging; cushioning foams	$2 billion	40,000	1,300
Solvents	Microelectronic circuitry, high performance air and space craft, and computers	Products valued at billions. Industry complexity precludes more detailed analysis for this report.		
Food Freezants	Frozen shrimp, fruit, fish, vegetables	$0.4 billion	less than 1000	30
Sterilants	Medical items, catheters, syringes, respiratory units, medical supplies, pharmaceuticals	$0.1 billion (sterilizing equipment)	less than 1000	2300
	TOTAL (not including solvents)	$28.9 billion	715,000	375,000

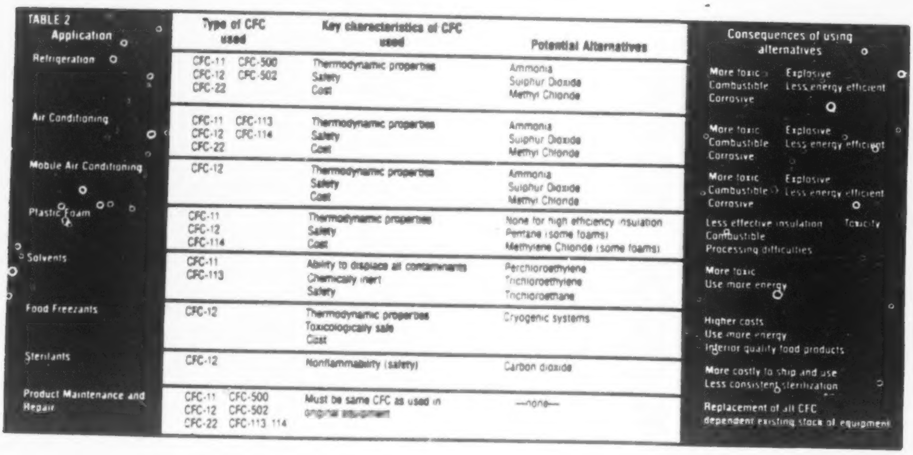

TABLE 2

Application	Type of CFC used	Key characteristics of CFC used	Potential Alternatives	Consequences of using alternatives
Refrigeration	CFC-11 CFC-500 CFC-12 CFC-502 CFC-22	Thermodynamic properties Safety Cost	Ammonia Sulphur Dioxide Methyl Chloride	More toxic Combustible Corrosive Explosive Less energy efficient
Air Conditioning	CFC-11 CFC-113 CFC-12 CFC-114 CFC-22	Thermodynamic properties Safety Cost	Ammonia Sulphur Dioxide Methyl Chloride	More toxic Combustible Corrosive Explosive Less energy efficient
Mobile Air Conditioning	CFC-12	Thermodynamic properties Safety Cost	Ammonia Sulphur Dioxide Methyl Chloride	More toxic Combustible Corrosive Explosive Less energy efficient
Plastic Foam	CFC-11 CFC-12 CFC-114	Thermodynamic properties Safety Cost	None for high efficiency insulation Pentane (some foams) Methylene Chloride (some foams)	Less effective insulation Combustible Processing difficulties Toxicity
Solvents	CFC-11 CFC-113	Ability to displace all contaminants Chemically inert Safety	Perchloroethylene Trichloroethylene Trichloroethane	More toxic Use more energy
Food Freezants	CFC-12	Thermodynamic properties Toxicologically safe Cost	Cryogenic systems	Higher costs Use more energy Inferior quality food products
Sterilants	CFC-12	Nonflammability (safety)	Carbon dioxide	More costly to ship and use Less consistent sterilization
Product Maintenance and Repair	CFC-11 CFC-500 CFC-12 CFC-502 CFC-22 CFC-113, 114	Must be same CFC as used in original equipment	—none—	Replacement of all CFC dependent existing stock of equipment

SOURCE: ALLIANCE FOR RESPONSIBLE CFC POLICY

Source: Putnam, Hayes & Bartlett, May 1987

FIGURE 1

COST OF WEIGHTED PRODUCTION FREEZE BY YEAR, 1986-2000

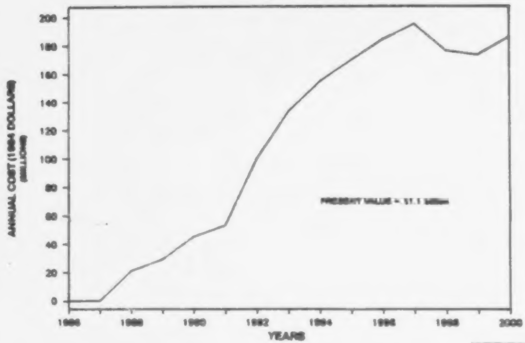

Figure 1 shows cost of weighted production freeze on CFCs 11, 12, and 113. Depending on the availability of substitutes, annual costs will exceed $180 million by the mid-1990s.

FIGURE 2

CFC PRICE INCREASES UNDER FREEZE 1986 to 1997

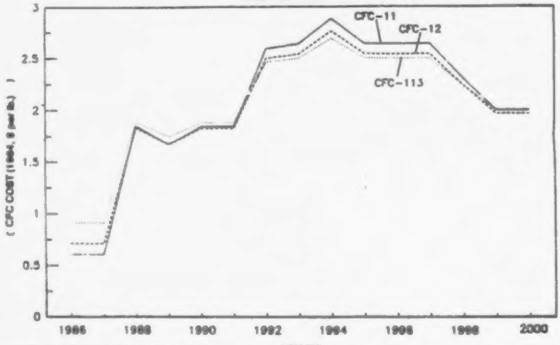

Figure 2 shows anticipated price increases of CFCs 11, 12, and 113 as a result of a production freeze. Prices could double immediately and continue to rise up to 3-4 times current levels until subtitutes become available.

FIGURE 3

CFC USE GROWTH
Weighted CFC Production 11, 12, 113

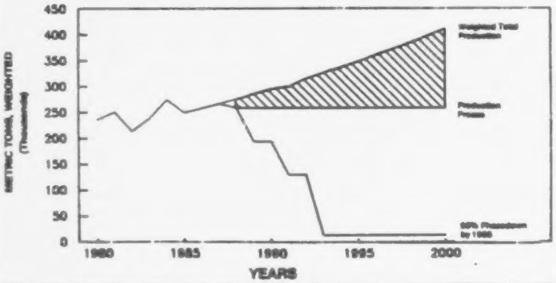

Figure 3 shows the impact of a freeze on the growth in (weighted) total production of CFCs 11, 12, and 113. The freeze reduces cumulative production by approximately 1.1 million metric tons relative to the no regulation case. This amount is equivalent to about four years at current production levels.

RECAP OF F/C RELATED IMPORTS/EXPORTS

Assumptions	Imports Adjusted Imports From ($ Mill) UK	FR	GE	IT	CO	JA	Total Adjusted All Countries Billion $	Total Exports Billion $
1. Fluorocarbons (Part of SIC 2869)								
Fluorocarbons (DOC 1986 Import Statistics)	20.9	6.3	3.8	1.0	1.2	3.6	.04	.05
2. Products Containing FCs								
A/C, Refrig., Heating Equipment (use 90% of SIC 3585 to Eliminate "Heating" Part. 90% is Du Pont Estimates.)	3.0	1.9	21.1	58.3	60.2	457.4	.73	1.08
Household Appliances (Use 10% of SIC 363, i.e., Small Regrigerators. 10% is Du Pont Estimates.)	2.8	3.3	10.9	8.4	8.8	95.1	.26	.09
SUBTOTAL 2	5.8	5.2	32.0	66.7	69.0	552.5	.99	1.17
3. Products Made with FCs								
Furnitures + Fixtures (Assume 20% of SIC 25 Contain Foam; of which 65% is Blown with FCs.)	11.7	7.1	22.3	43.4	114.6	15.2	.46	.07
Rubber & Plastic Products (Assume 1% of SIC 30 are Foamed Products, Blown with FCs.)	2.0	2.0	3.3	1.6	9.5	10.1	.05	.03
Electric Computing Equip. (Use 80% of SIC 3573.)	134.2	54.1	102.9	72.6	282.6	1081.7	3.36	

Assumptions	Imports Adjusted Imports From ($ Mill) UK	FR	GE	IT	CO	JA	Total Adjusted All Countries Billion $	Total Exports Billion $
3. (cont'd)								
Semicon. Electronic Comp. (Use 80% of SIC 3674+79.)	142.2	129.7	188.9	38.9	385.7	2531.0	8.27	16.8
Office Machine, Radio, & T.V., Radio Transm., Telephone & Telegraph (Use 10% of SIC 3579, 3651, 3661, 3662.)	33.1	13.9	31.1	35.5	114.9	1343.0	2.26	.51
Motor Vehicles & Car Bodies (Use 50% of SIC 3711.)	323.5	301.6	3333.6	85.5	7902.1	11275.6	24.50	4.45
Motor Vehicle Parts & Access (Use 10% of SIC 3714.)	29.1	24.0	73.2	11.6	643.0	158.0	1.13	.83
SUBTOTAL 3	675.8	532.4	3755.3	289.1	9452.4	16414.6	40.03	22.69

WK/JMS/RLS/rtp
6/25/87
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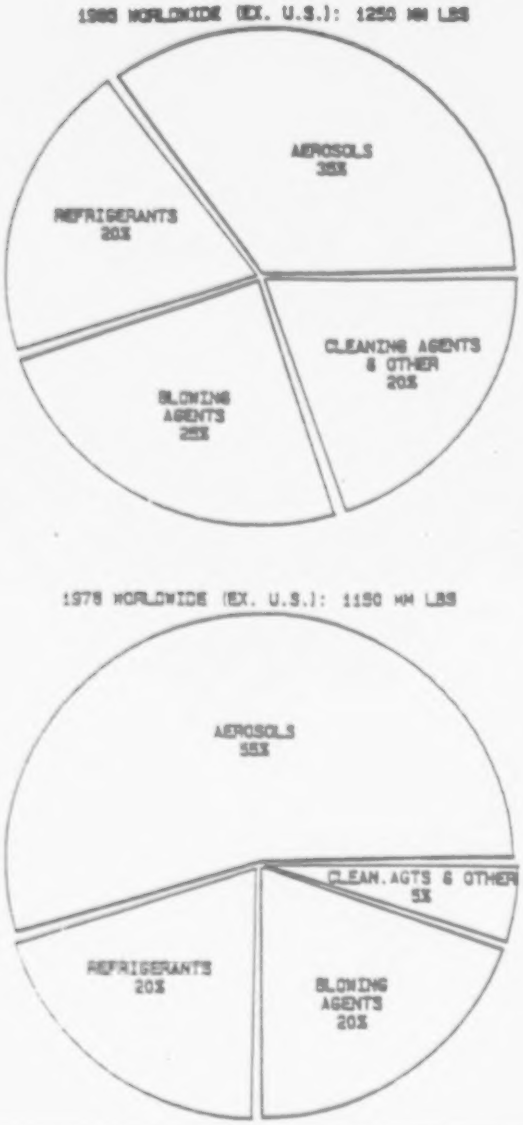
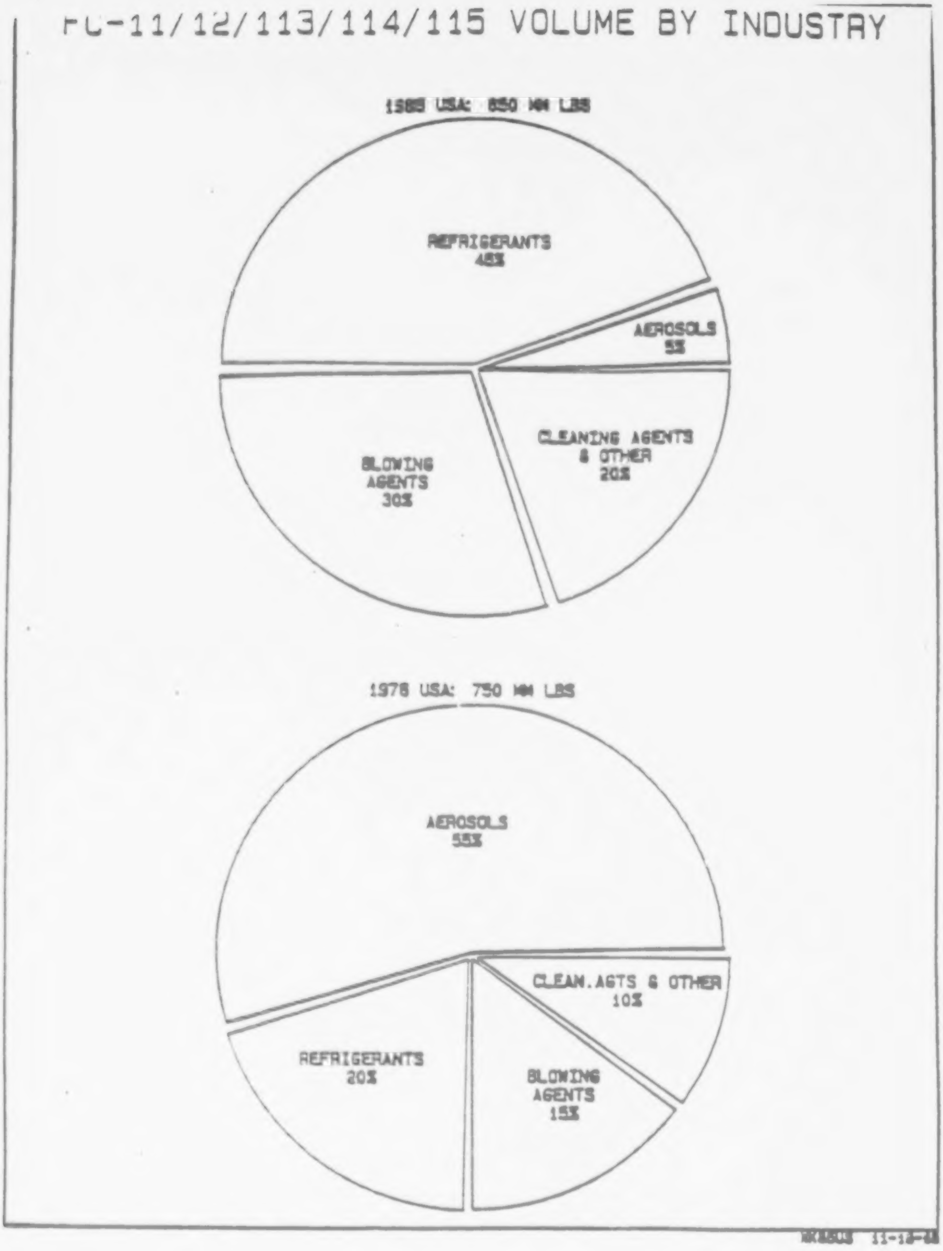
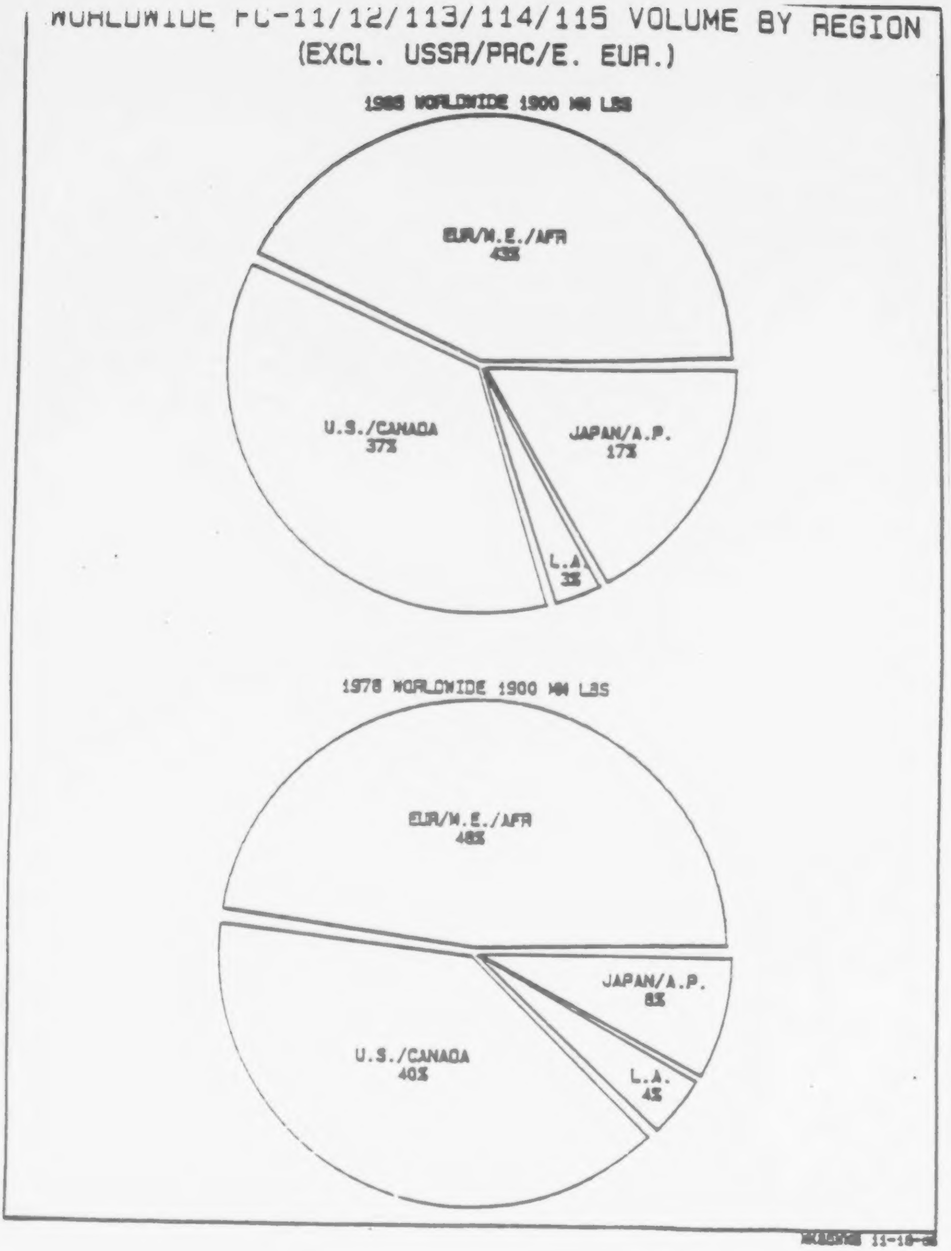
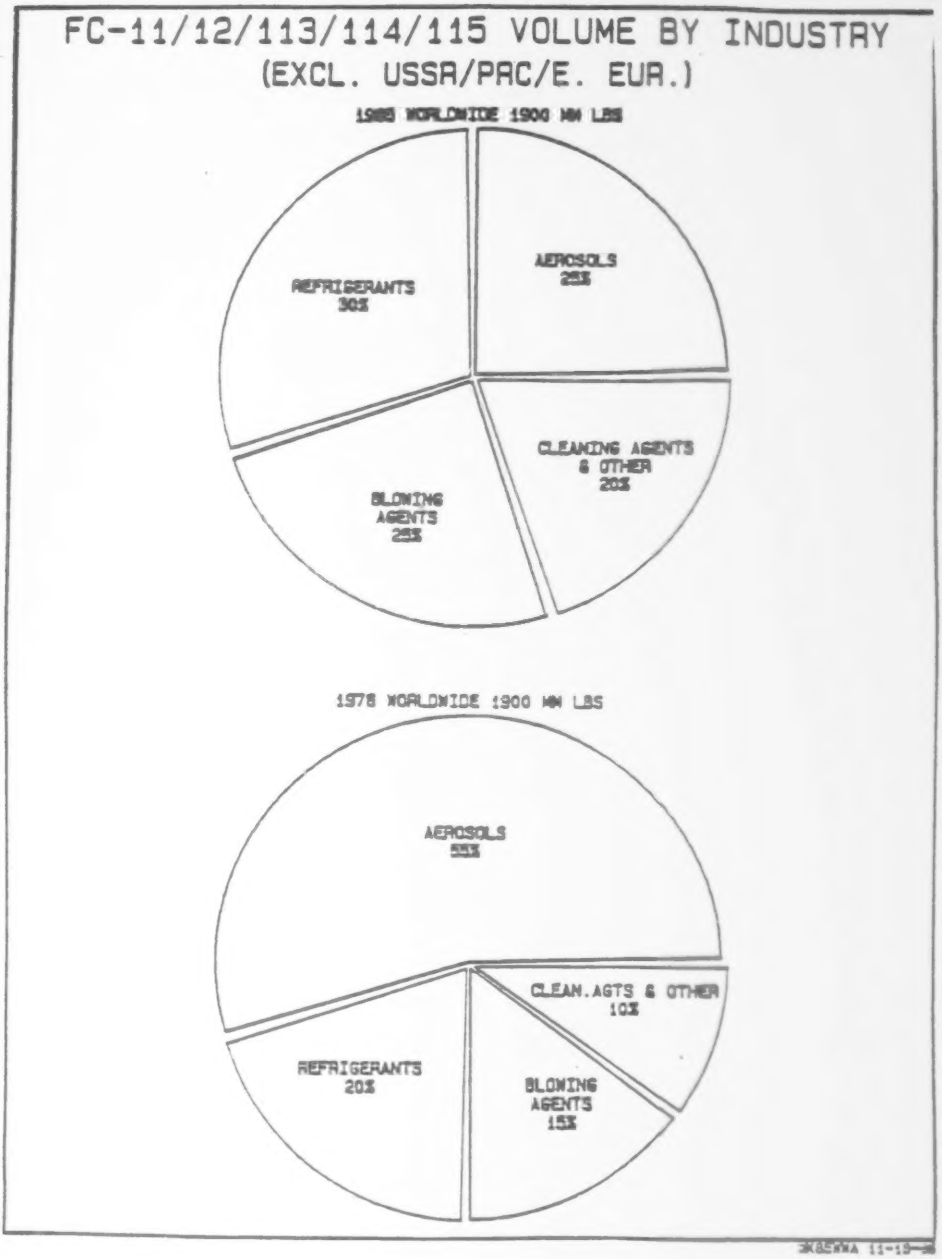
FC-11/12/113/114/115 VOLUME BY INDUSTRY




FC-11/12/113/114/115 VOLUME BY INDUSTRY
1988 USA: 850 MM LBS
REFRIGERANTS
45%
AEROSOLS
5%
CLEANING AGENTS
& OTHER
20%
BLOWING
AGENTS
30%
1976 USA: 750 MM LBS
AEROSOLS
55%
CLEAN.AGTS & OTHER
10%
REFRIGERANTS
20%
BLOWING
AGENTS
15%


WORLDWIDE FC-11/12/113/114/115 VOLUME BY REGION
(EXCL. USSR/PRC/E. EUR.)



FC-11/12/113/114/115 VOLUME BY INDUSTRY
(EXCL. USSR/PRC/E. EUR.)

[illegible] 11-19-86

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(818) 961-0891

Pomona, 91767
1256 Price Street
(714) 623-2675

San Bernardino, 92410
404 So. "I" Street
(714) 884-1885

Cathedral City, 92234
34660 Date Palm Dr
(619) 324-1746

San Jose, 95112
702 E. Gish Road
(408) 286-7674

Concord, 94520
1650 Challenge Dr
(415) 825-5711

El Cajon, 92020
199 So. Marshall St
(619) 440-8022

Van Nuys, 91402
14618 Lanark Street
(818) 782-0726

Las Vegas, 89109
2950 S. Highland
(702) 737-0090

July 30, 1987

The Honorable Dan Rostenkowski
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Sir:

The tax and spend policies of the past 25 years have led us to the brink of disaster! I urge you to avoid new and higher taxes.

Do not support the proposed excise tax on refrigerant gases (CFC's).

Very truly yours,

Robert L. Nichols Jr.

Robert L. Nichols, Jr.
Vice President, Finance

RLN,Jr./sf

CASS BALLENGER
10TH DISTRICT, NORTH CAROLINA

116 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
202-225-2576

COMMITTEES:
EDUCATION AND LABOR
PUBLIC WORKS AND TRANSPORTATION

Congress of the United States
House of Representatives
Washington, DC 20515

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361-10TH AVENUE DRIVE, NE.
HICKORY, NC 28603
704-327-6100

832 E. GARRISON BOULEVARD
GASTONIA, NC 28054
704-864-9922

August 26, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth
Washington, D.C. 20515

Dear Dan:

One of the revenue raising option under consideration by the Committee would impose an excise tax on the sale or use by the manufacturer of ozone depleting chemicals and on the import of such chemicals, or products containing such chemicals.

I would like to register my opposition to this proposal. The tax would be difficult to administer and would further injure domestic chemical companies already at a competitive disadvantage. There is also significant controversy over the extent CFC's contribute to the depletion of the ozone layer.

The best way of solving the possible problem with CFC's is through international agreement, not a unilateral change in tax policy.

Sincerely,

Cass
CASS BALLENGER
Member of Congress

CB:pmm

BELTWAY
HEATING & AIR CONDITIONING CO., INC.
7838 Parston Drive
Forestville, Maryland 20747
(301) 736-3131 — (703) 461-2215

August 19, 1987

The Honorable Dan Rostenkowski
House Ways and Means Committee
1102 Longworth House Office Building
Washington DC 20510

Dear Congressman Rostenkowski:

I am writing in opposition to any proposed tax on chloroflourocarbons (CFCs) as a revenue raising measure in the FY 88 Budget Resolution and as a possible solution to the ozone depletion problem.

Specifically, I oppose the Ozone Protection and CFC Reduction Act of 1987, H.R. 2854, which would: 1) impose a manufacturer's excise tax on any ozone-depleting chemical and domestic or imported product that uses CFCs, 2) decrease the amount of money needed by U.S. industries to research and develop effective CFC substitutes and 3) interfere with current international negotiations where the U.S. is working with world competitors to reach a uniform CFC reduction plan.

H.R. 2854 or any CFC tax would disrupt the CFC industry by reducing American competiveness in foreign markets. American products and jobs would be in jeopardy.

I would appreciate your keeping these concerns in mind and use your influence as a member of the House Ways and Means Committee to oppose a tax on CFCs.

Sincerely,

Warren B. Lupson

tam

MEMBER
acca
Air Conditioning Contractors of America

Identical letters were submitted by the following:

Elliott-Lewis Corporation, Mr. Thomas H. Lewis, Jr., Chairman, Philadelphia, Pennsylvania
Florida Heating and Air Conditioning, Mr. Elliott Sokolow, President, Pompano Beach, Florida

Celotex

Regional Sales Office
The Celotex Corporation
a Jim Walter company

1400 E. Touhy Avenue
Touhy Office Plaza Suite #336
Des Plaines, Illinois 60018-3375

July 28, 1987

The Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
United States House of Representatives
Washington, DC 20515

Dear Mr. Rostenkowski:

The Celotex Corporation is a wholly owned subsidiary of Jim Walter Corporation and is a leading manufacturer of building products. Included in this product line are energy saving rigid foam insulation materials. Since we rely on chlorofluorocarbons (CFC's) to provide the unsurpassed insulation efficiency of these rigid foam insulations, we have been involved in the CFC/ozone issue at all levels.

We are very concerned that both the House Ways and Means Committee and the Senate Finance Committee are considering a proposal to tax CFC's beginning in 1988 at $1/lb. rising to $3/lb. in 1990. We urge you to oppose this proposal based on the following facts:

1. This proposal comes at a time when there is a real possibility of an international accord related to CFC production and use.

   This tax would be another unilateral step which will create more uncertainty for industries like ourselves who are trying to plan for consequences of the international agreement and the court ordered EPA rulemaking due to be promulgated in September 1987 and December 1987, respectively.

2. An immediate tax on CFC's will certainly imperil our company's existence, since the identification and commercial availability of a CFC substitute is still in the research and development stage. The proposed international agreement and EPA schedule would at least allow us to complete our search and modify our manufacturing plants to use the substitute.

3. The annual U.S. value of the total rigid foam insulation industry relying on CFC's exceeds $2 billion and directly involves more than 40,000 jobs. Further unilateral action, such as this tax, will not further the resolution of this issue in the global arena where it properly belongs. We will be once again placing U.S. industry at a distinct disadvantage in the world market.

Celotex

Mr. Dan Rostenkowski
July 28, 1987

We are asking you take a fair look at the economic impact of this proposed tax. Beyond the direct loss in dollars and jobs, our company developed these rigid foam insulations in response to the nation's need for energy conserving construction during the 1973 oil embargo. We feel this proposed tax is another threat to our country's efforts to conserve energy. The disappearance of rigid foam insulations which rely on CFC's will certainly mean construction of less energy efficient homes and buildings which will further negatively affect air quality, since more fossil fuels will be burned, and also increase our reliance on foreign fuel imports.

Thank you for your consideration of my views on this issue.

Sincerely,

THE CELOTEX CORPORATION

W. G. Ashton
Regional Sales Manager

Identical letters were submitted by the following, all employees of The Celotex Corporation:

Mr. J. P. Borreca, Vice-President, Tampa, Florida
Mr. Ken J. Davis, Fremont, California
Mr. John James, Field Sales Manager, Des Plaines, Illinois
Mr. Timothy M. Pariso, Vice President, Marketing, Tampa, Florida
Mr. R. E. Whitcome, Fort Dodge, Iowa

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758 INDUSTRIAL DR
ELMHURST, IL 60126
834 8433

GARY, INDIANA
4120 BROADWAY
GARY, INDIANA 46408
(219) 887 5181

August 28, 1987

Representative Daniel Rostenkowski
House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski;

I am writing to tell you that I am very concerned about some of the legislation proposed to eliminate or restrict the use of CFCs and the recently introduced tax measures proposed by the House Ways and Means Committee and Rep. Stark. Passage of any of these bills now will jeopardize the international negotiations taking place with the United Nations Environment Programme. Even when an international agreement is in hand, the drastic measures these bills propose are unneeded and dangerous to our country's economic future.

As I hope you know, our very standard of living is dependent on use of CFCs. They are the key to safe refrigeration vital to our food chain, the energy efficiency in insulation and heat pumps, the efficient manufacture of electronics for our use at home and in the nation's defense and space programs, and many successes in medicine. We need to think very carefully about how we will maintain these very important activities before enacting legislation.

We are currently looking for ways to reduce any leakage or unnecessary emissions of these compounds to the atmosphere. However, there are currently no available substitute products that are safe to use, effective, or economically viable. Therefore, until replacement products are on the market, calls to phase out or tax the existing CFCs are premature and are unjustifiable from a scientific or economic standpoint.

The only effective way to meet the environmental concern about CFCs is to work for an effective international agreement on CFCs and then to implement it in the U.S. I hope that you will work to be sure our laws for CFCs are no more restrictive than needed to protect the environment and are fair enough that our already strained international competitiveness is not harmed.

Please write to tell me your position on this issue and what you are doing to assure an effective international resolution.

Sincerely,

R.K. Swanson, Pres.

ARW
AIR CONDITIONING & REFRIGERATION WHOLESALERS ASSN
We're moving ahead

DUNHAM-BUSH

175 South Street
West Hartford, CT 06110
(203) 249-8671

Richard T. O'Connell
Vice President -
Administration

August 17, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways & Means
U. S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski:

I am writing to urge you to oppose H.R. 2854, a bill being considered by the tax writing committees in Congress, which would place a tax on the sale of chlorofluorocarbons (CFSs). CFCs are used as refrigerants in air conditioning and refrigeration systems and no workable substitutes for them exist today. Our company, Dunham-Bush, Inc., is located in West Hartford. We make Heating, Air-Conditioning and Refrigeration Products. We employ approximately 1,200 people in Connecticut, Iowa, Virginia and California. CFCs are vital to our business, and to the continued reliance by all people on air conditioning and refrigeration.

Although the Environmental Protection Agency and the United Nations are presently considering options to regulate production of CFCs because of their potential depletion of the ozone, no final decisions have been made. Raising the price of CFCs in the U.S. through a tax can have a serious negative impact on U.S. products sold abroad and on U.S. jobs.

We urge you to oppose H.R. 2854 or any measure to regulate CFCs until all the facts are known. EPA won't issue final regulations until August 1, 1988.

In order for you to fully appreciate the inappropriateness of this piece of legislation we ask that you strongly consider the following:

- H.R. 2854 is premature. Negotiations are currently underway on a global agreement for CFC reductions and ozone protection.

- EPA is under court order to issue a regulatory decision on the need for further CFC reducing measures in the U.S. by December 1.

- It is prudent to let the international and domestic regulatory processes conclude before the Congress acts.

DUNHAM-BUSH

- Both the House and Senate have passed resolutions supporting a global agreement on ozone protection, as opposed to unilateral U.S. action.

- Increasing the price of CFCs only in the U.S. will put American products and jobs at jeopardy with foreign competition.

- A tax on CFCs of $1.00 per pound would cause serious disruption to many small businesses.

- No workable substitutes for CFCs have been developed at this time for use as refrigerants.

- Manufacturers of air conditioning and refrigeration systems will need nine to eleven years from the time new refrigerants are available for testing to put products using them on the market.

- ** H.R. 2854 includes a tax on CFC 22, which EPA strongly recommends not be regulated, but viewed as a solution to the ozone protection problem.

Please oppose H.R. 2854 and any unwarranted Congressional or regulatory action until all the facts are known.

Very truly yours,

RTO/ba

ENTEC SERVICES, INC.

P.O. Box # 1351 / Peoria, Illinois 61654
4326 W. Pfeiffer Road / Bartonville, Illinois 61607
Telephone 309/697-2122

August 27, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Bldg.
Washington, DC 20515

Dear Honorable Rostenkowski:

I am writing regarding Bill No. H.R. 2854, which will place a $1.00 per pound tax on all CFCs.

As President of a small HVAC service company in the Peoria area, I would like to voice my opinion on the consequences of this proposed tax.

1. Bill No. H.R. 2854 is premature. Since negotiations are currently underway on a global agreement for CFC reductions and ozone protection, you are choosing to tax a problem but not solve the problem. By taxing the problem you will create financial problems for the service companies forcing many out of business.
2. Since both the House and Senate have passed resolutions supporting a global agreement on ozone protection, let us promote international and domestic regulatory processes before the Congress acts. Let us not jeopardize American products with foreign competition.
3. CFC22 should not be regulated as proposed in H.R. 2854.
4. Allow manufacturers of air conditioning and refrigeration systems some time to test and market products with new refrigerants.

This is an extremely important issue for the future of our company and would appreciate your consideration with any further action to Bill No. H.R. 2854.

Sincerely,

Thomas L. Weed

THOMAS L. WEED
President

mh

DANTE B. FASCELL, Florida, Chairman

LEE H. HAMILTON, Indiana
GUS YATRON, Pennsylvania
STEPHEN J. SOLARZ, New York
DON BONKER, Washington
GERRY E. STUDDS, Massachusetts
DAN MICA, Florida
HOWARD WOLPE, Michigan
GEO. W. CROCKETT, Jr., Michigan
SAM GEJDENSON, Connecticut
MERVYN M. DYMALLY, California
TOM LANTOS, California
PETER H. KOSTMAYER, Pennsylvania
ROBERT G. TORRICELLI, New Jersey
LAWRENCE J. SMITH, Florida
HOWARD L. BERMAN, California
MEL LEVINE, California
EDWARD F. FEIGHAN, Ohio
TED WEISS, New York
GARY L. ACKERMAN, New York
MORRIS K. UDALL, Arizona
CHESTER G. ATKINS, Massachusetts
JAMES McCLURE CLARKE, North Carolina
JAIME B. FUSTER, Puerto Rico
JAMES H. BILBRAY, Nevada
WAYNE OWENS, Utah
FOFO I.F. SUNIA, American Samoa

JOHN J. BRADY, Jr.
Chief of Staff

One Hundredth Congress
Congress of the United States
Committee on Foreign Affairs
House of Representatives
Washington, DC 20515

WILLIAM S. BROOMFIELD, Michigan
BENJAMIN A. GILMAN, New York
ROBERT J. LAGOMARSINO, California
JIM LEACH, Iowa
TOBY ROTH, Wisconsin
OLYMPIA J. SNOWE, Maine
HENRY J. HYDE, Illinois
GERALD B.H. SOLOMON, New York
DOUG BEREUTER, Nebraska
ROBERT K. DORNAN, California
CHRISTOPHER H. SMITH, New Jersey
CONNIE MACK, Florida
MICHAEL DeWINE, Ohio
DAN BURTON, Indiana
JAN MEYERS, Kansas
JOHN MILLER, Washington
DONALD E. "BUZ" LUKENS, Ohio
BEN BLAZ, Guam

STEVEN K. BERRY
Minority Chief of Staff

July 15, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr Chairman:

We are writing to you regarding a proposal before your Committee to impose an excise tax on ozone-depleting chemicals.

We are strong supporters of efforts to eliminate as rapidly as possible the serious threat which ozone depletion presents to the world community. We believe that the most effective way to achieve this objective is through international agreement. Currently substantive international negotiations are now being held to reach agreement on an international regime to control production of the chemicals which threaten the ozone layer.

While an excise tax on chemicals which damage the ozone layer may at some point be a useful complement to a global scheme of chemical controls we believe the imposition of such a tax at this time would be premature. Imposition of a tax now might unintentionally undermine our efforts to secure as comprehensive international agreement as possible. We therefore urge the Committee on Ways and Means to defer imposition of any additional tax on ozone-depleting chemicals until an international agreement has been concluded and your Committee has an opportunity to review how such a tax would affect an agreement.

With best wishes, we are

Sincerely,

Gus Yatron
Gus Yatron
Chairman
Subcommittee on Human Rights
& International Organizations

Dante B. Fascell
Dante B. Fascell
Chairman
Committee on
Foreign Affairs

DBF/GY:RMFdmh

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August 14, 1987

Congressman Dan Rostenkowski
United States Congress
Washington, D.C. 20510

Dear Congressman Rostenkowski:

A tax on CFCs is both ill-advised and ill-timed. It would represent one more unilateral step by the United States when our companies are already at a competitive disadvantage. Moreover, it would come at a crucial time in which sensitive international negotiaions on CFCs and ozone protection are nearing successful completion;

A tax on CFCs will deprive U.S. industries of funds necessary for research and development of new CFC compounds and technological advances to protect the earth's ozone layer;

Additional unilateral action by the U.S. on CFCs would create significant uncertainties at a time when industries and consumers are preparing to come to grips with an international agreement and a court mandated EPA rulemaking on CFC compounds;

The annual value of goods and services in the U.S. directly relying in CFCs exceeds $28 billion and results in more than 715,000 jobs. Further unilateral action on CFCs by the U.S. will be a blow to international environmental progress and hurt U.S. industries' competitiveness worldwide.

Sincerely,

Herbert Meyer

Herbert Meyer
President

Similar letters were submitted by the following:

Halsey Supply Co, Inc., Ms. Miriam Meyer, Secretary-Treasurer, Brooklyn, New York
Hysan Corporation, Mr. John W. Marcus, Vice President/ National Accounts, Des Plaines, Illinois
Rawn Company, Inc., Mr. Robert Eichhorn, Technical Director, Spooner, Wisconsin

HERCULES®

HERCULES MANUFACTURING CO. ONE MAIN STREET P.O. BOX 497 HENDERSON, KENTUCKY 42420

August 5, 1987

Mr. Dan Rostenkowski,Chairman
House Ways and Means Committee
Room 1102
Longworth House Office Bldg.
Washington, D.C. 20515

Dear Mr. Rostenkowski:

It has come to our attention that the House Ways and Means Committee and Senate Finance Committee are considering a proposal to tax chlorofluorocarbons (CFCs).

As a manufacturer of insulated and refrigerated truck bodies, we have remained informed and concerned about CFCs. A tax on CFCs will deprive U.S. industries of funds necessary for research and development of new CFC compounds and technological advances to protect the earth's ozone layer. The annual value of goods and services in the U.S. directly relying on CFCs exceeds $28 billion and results in more than 715,000 jobs. Further unilateral action on CFCs by the U.S. will be a blow to international environmental progress and hurt U.S. industries' competitiveness worldwide. Morever, this would come at a crucial time in which sensitive international negotiations on CFCs and ozone protection are nearing successful completion.

We urgently request that you oppose this CFC tax proposal.

Respectfully yours,

HERCULES MFG. CO.

Joe Banna

cc: Senate Finance Committee - all members
House Ways and Means Committee - all members
Congressman Carroll Hubbard, Ky.

Insulated trailers, truck bodies and related equipment sold all over the world SINCE 1902 Phone 502-826-9501

Identical letters were submitted by the following, all employees of Hercules Manufacturing Co., Henderson, Kentucky:

Ms. Marie A. Lynch, Accounting Manager
Ms. Sharon Nollman, Sales Coordinator
Mr. Rick York, Vice President, Sales

HUSSMANN
An IC Industries Company
[illegible]

July 16, 1987

The Honorable Dan Rostenkowski
Chairman
House Ways and Means Committee
U.S. House of Representatives
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Rostenkowski:

The House Ways and Means Committee recent hearings on revenue raising measures included HR-2854, legislation that would levy a tax on chlorofluorocarbons (CFCs). These chemicals are used in many critical industries such as refrigeration, air conditioning, automotive, foam insulation, and electronics.

The Hussmann Corporation is a member of the Alliance for Responsible CFC Policy, a coalition of more than 500 U.S. companies that use or produce CFCs. We have been following the current negotiations under the auspices of the United Nations Environment Programme (UNEP) to address the use of CFCs. It is possible that an international agreement will be reached later this year that includes the major CFC producing nations.

Because of the international negotiations, I would encourage you not to advance legislation such as H.R. 2854 at this time. The result of an international agreement would very likely be significant price increases. In addition, a tax imposed now on U.S. industries would place them at a competitive disadvantage against world competitors.

I believe that it is important that an international agreement is reached and any additional unilateral action by the U.S. would adversely affect the negotiations and I urge you to oppose the tax on CFCs.

Sincerely,

Peter W. Likes

Peter W. Likes
Vice President
Government & Trade Relations

PWL/jq

[illegible] MARYLAND
FORT WORTH, TEXAS 76104
PHONE 335-2291

[illegible] FABENS
DALLAS, TEXAS 75229
PHONE 243-8846

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July 21, 1987

Honorable Dan Rostenkowski
House Ways and Means Committee
U. S. House of Representatives
Washington, D. C. 20515

Subject: Excise tax on Refrigerant Gasses

Dear Mr. Rostenkowski,

Please oppose this groundless attack on the consuming public by the imposition of a ridiculous excise tax on refrigerant gases.

If there is ever any solid evidence that these gases are a threat to our health or happiness then we should all join together in banning them but meanwhile this type of action is positively destructive to a responsible industry and to the consuming public.

We are concerned that there is more unwarranted fear and political demagoguery than substance to this whole issue.

Sincerely yours,

Emmett Moody
Emmett Moody
President

LEAR SIEGLER, INC.
no-sag PRODUCTS DIVISION

1750 WEST DOWNS DRIVE • WEST CHICAGO, ILLINOIS 60185-1803 • (312) 293-0780

August 21, 1987

Representative Daniel Rostenkowski
Chairman
House Ways and Means Committee
Room 1102 LHOB
Washington, D.C.

Dear Representative Rostenkowski:

Foam operations of No-Sag Products has plant locations in Illinois, Iowa, Indiana, and Texas. As a foamer and fabricator we are directly affected by proposals to tax chlorofluorocarbons.

It is our belief that unilateral action on CFC's, whether in the form of a tax or restrictions on usage, will put U.S. industry at a competitive disadvantage in world markets. It will be a disincentive to invest in research for alternate compounds and technological improvements to protect the ozone layer.

Any CFC related action must be as a result of international agreement where the result is more controllable and equitable.

Sincerely,

Joseph J. Progar
Joseph J. Progar
Vice President of Manufacturing
Foam Operations

JJP/ccg

OIL GAS COAL POTASH
ALFSON ENERGY COMPANY
P.O. BOX 758 • WILLISTON, NORTH DAKOTA 58801
A Land Lease & Title Service Company

July 17, 1987

Dan Rostenkowski
House Ways & Means Committee
2111 Rayburn
Washington DC 20515

Dear Mr. Rostenkowski:

Enclosed, you will find a copy of a letter I have sent to our local newspaper, several trade publications, and many concerned individuals. It will be apparent that I am soliciting support for a variable import fee on imported oil.

Much has been written, pro and con, regarding the need for this fee and the requirement for a National Energy Policy to establish it. This writing joins the debate, but in a somewhat different approach, and assessment.

All supporters of a variable import fee emphasize the importance of an adequate and assured supply of oil for national security, and the concomitant requirement for a viable industry to deliver it.

To the extent that the matter of national security seems to represent to those we are trying to reach as being the main thrust of the oil industry's concerns, I believe the impact of this country's energy problems is being perceived in isolation.

It is not being suggested that the importance of national security should ever be minimized. But equally important however, is this country's economic welfare. The oil and gas industry and associated businesses are so large a part of our economy that our economic welfare cannot help but be detrimentally affected by a continuance of low crude prices. Unfortunately, the American people little realize, or appreciate, how absolutely essential are adequate and assured supplies of energy to their continued well-being. And for now, energy means oil and gas.

To paraphrase Charlie Wilson, former president of General Motors, it now can truly be said, "What's good for the oil industry is good for the country."

Sincerely,

Bruce P. Alfson

TELEPHONE (701) 774-0082 • ENERGY PLAZA BUILDING • 201 EAST 26th STREET

The News Editor
Williston Daily Herald
Williston, ND 58801

Dear Sir:

In an editorial you wrote entitled, "It Sure Is Quiet Out There In the World of Oil", you quote William Dudley, World Oil magazine publisher. As you stated, Mr. Dudley believes that the only solution to bottom of the barrel crude prices is a variable import fee on imported crude oil.

You expressed your feelings on this by saying, "I'm not convinced of the wisdom or fairness of an oil import fee since this request is coming from an industry that has always asked for less government regulation, not more."

Somewhere in that sentence I have missed the continuity of reasoning, but please do not feel that you are being faulted or criticized. You have demonstrated the confusion and misunderstanding of almost all citizens of this country about what is going on in the oil industry and what it means to each of us. I have been in the oil exploration business for 35 years and hardly expect those who lack such exposure and experience to be aware of the very many essential facts that have an important bearing on this matter. It is extremely important however, that the American people do acquire an understanding of this country's energy problems, and how it impacts on all of us.

Most of us have heard, and no doubt readily accept the fact, that adequate and assured supplies of oil are necessary to our national security. Even though the American people may have no trouble accepting this on principle, the facts to support it will be forthcoming. For now, let's set this aside. Two things remain: (1) How does national energy policy affect our economy and, (2) How does it affect us individually and personally? The two are intricately related, of course, but they both need to be examined.

At this point, and before going any further, it is necessary to make some fundamental statements to provide a foundation on which to build some understanding about what you will be reading later in this letter.

The first statement to be made is that the price of crude oil at this time in history is so important that even people like yourself, who are in no way connected with the oil industry, stand a good chance of being drastically affected. For example, it is entirely possible that before too long you may be looking for a job with no way to get one, no way to pay your bills, or your house mortgage, or your car payments, or your groceries. Such economic conditions are not withou precedent. These things happened in the 1930's depression. In other words, as will be explained later, the oil industry's economic problems are not the exclusive concern of the oil industry nor are they a matter of serving their self-interests. Their problems are sitting in the laps of every one of us.

These are bold statements. Here is another one. If present conditions in the oil industry continue, and if a depression can be averted, we will all be living on a much lower standard of living. You will be driving older cars, wearing older clothes, living in drab housing, eating lots of oatmeal for breakfast, no vacation trips except maybe a 60 mile trip to Roosevelt Park, and your children may not be going to college.

By now you are probably ready to conclude that these statements are not only unpleasant to contemplate, but also represent personal opinion. If so, you are correct, and you are not expected to accept them as whole cloth solely on the basis of their assertions. You would be expected however, to arrive at some intelligent conclusions of your own once you become aware of the magnitude and nature of the problems posed by crude oil prices that are too low.

It is the purpose of this letter to make you aware of them. In order to do this, it will be necessary to look at a much larger picture, and that will explain why it may seem at times that we are going rather far afield. The threads that hold it all together are there however, as you will no doubt discern.

Here are a few fundamental statements that you must be aware of in order to attain a proper perspective on what you will be reading:

1. Not a wheel turns without energy. Not even the wheels that feed us.
2. There is presently no shortage of oil, but there will be.
3. There never will be, or at least never need be a shortage of practical, useable, safe sources of energy. The technology of assured supply is already pretty well in hand, but not in place.
4. Oil and gas will be replaced as the primary source of energy. This will happen in the next 40-50 years. It will have to, because at approximately that time we really will be looking at a shortage of oil in the world, or at least such an uncertainty of adequate supply as to be tantamount to the same thing. Looking forward, that may seem like a long time; looking back, it's like the blink of an eye.
5. Muscle power is archaic. There is no going back. For now, oil and gas in sufficient quantities to support and advance our standard of living must be relied upon and available until economically viable substitutions can be brought about. Coal is one of them. The U.S. has a 300 year supply of coal, but it will take many years before it can be made to significantly substitute for oil and gas. Nuclear energy is another, but it has unsolved waste disposal problems at present.
6. Conservation of energy is good common sense practiced. It is not a solution however, simply because it is a saving of energy, not a source of energy. Furthermore, if it means a reduction in our standard of living, not very many people are going to buy it.

How can crude prices affect our economy and subsequently our own individual economic well being? You will find it woven throughout the following material. You will also find concerns expressed about the U.S. economy of which oil is an extremely important and related part. In addition, there will be some very pointed concerns expressed about what politicians do and don't do that have compounded the problems of the oil industry, our national economy, and our personal welfare. But, to return to the beginning, let's start off with the import fee.

The advocates of a variable import fee want the U.S. Government to adopt a national energy policy that establishes a variable fee on imported oil. They are saying that the import fee is necessary in order to raise the price of oil, and without this raise, the U.S. oil industry will be unable to provide for our energy needs. They are also saying that unless oil prices go up, our economy is going to be seriously and detrimentally affected.

So, what is a variable import fee and how can it help? The import fee is the difference between what is considered to be a reasonable price to pay for oil, and what the world market charges. For example, let's say the U.S. decides that $25/bbl. is the minimum price that our oil industry requires in order to do their job. If the world market price is $10/bbl., the U.S. Government would collect the difference of $15 on every barrel of oil imported into the United States. If the world market price of crude oil went to $15/bbl., the U.S. Government would collect the $10/bbl. difference. Thus, the use of the word "variable." How much of our oil requirements are imported? Right now, nearly 7,000,000 barrels per day. I repeat, "per day."

The effect of a variable import fee would be to eventually drive up the price of oil world wide to the level set by the U.S. Government, in this example, $25/bbl. Until that happened, the U.S. Government would be collecting the $15 difference, or whatever the difference was. The overall effect of the import fee would be to transfer some of the profits from foreign oil producers to the U.S. Treasury.

Twenty-five dollars per barrel for oil would mean somewhat increased fuel costs for all of us, as compared to $10 oil, and our instant reaction would be that we wouldn't like that. Let's look a little deeper. Maybe we will decide we like it a lot in light of the alternatives. But before getting into this, let's remember that we had made a good adjustment, or at least one we could live with, in accommodating the cost of oil products when crude oil brought $40/bbl.

Is $25/bbl. reasonable? To determine this, one must be aware of the expenses involved. In the oil industry, oil supply expense is the sum of two things: (1) The cost per barrel of finding oil, and (2) the lifting cost per barrel, (ie: the cost of maintaining production once found.)

The cost of finding oil in the continental United States is $11.50 per barrel. This is how it got there. The American Association of Petroleum Geologists reports that in 1950, 300 barrels of oil were found for each foot of drilling. In 1970, the figure was 80 barrels per foot of drilling. In 1980, the figure was 40 barrels per foot of drilling. The price of oil in the early 1950's was approximately $3.00 per barrel. What would the price of oil have to be today when it is necessary to do eight times as much drilling to find the same amount of oil as was being found in 1950. Add to this, adjustments for inflation in the last 36 years, and it is easy to understand why the cost of finding oil is $11.50 per barrel.

Lifting costs in the United States average $10/bbl. This cost has derived from the combination of inflation over the past 36 years, and the higher cost of producing low yield reservoirs, which is about all there is left that is presently accessible in the lower 48 states. The superintendent of production for a major oil company operating one of the best oil fields in North Dakota, has stated that their lifting costs are $9 per barrel. I can confirm that from my own personal experience. As one of several investors that drilled a small well in the Williston Basin, we have found that our lifting costs are $13.79/bbl. This well produces between the stripper well category of 10 barrels per day and the North Dakota average of 30 barrels per day.

Added together, the cost of finding oil plus the cost to produce it is $21.50/bbl.

It is obvious that the oil industry cannot survive on $18/bbl. oil much less make a profit to insure continued exploration. Furthermore, a price of $18/bbl. does not represent the income that the oil industry receives per barrel. After deducting royalty payments to mineral owners and oil taxes to the state, oil companies will net only $13.77/bbl. on $18 oil.

What happens if the price of oil goes from $18/bbl. to $25/bbl.? The oil industry will realize only $1.30/bbl. out of this $7.00 increase. The rest will go for Windfall Profit Taxes, which automatically goes into effect when the price of oil exceeds $18/bbl., state severance taxes, and royalty payments.

After deducting payments for royalty and taxes, oil companies will only receive $13.77 plus $1.30 for a total of $15.07, when the price of oil goes to $25 per barrel. When the cost of finding and producing oil is $21.50/bbl., an income figure of $15.07/bbl. will leave an operating loss of $6.43 per barrel.

A $6.43/bbl. operating loss would be realized by most oil companies, and assuredly for major oil companies, whose operating expenses traditionally run higher than that of independents.

Does this explain why the drilling rig count in North Dakota has gone from 144 at the peak a few years ago, to the present rig count of 6? Does this explain why in the last two months, the drilling rig count in North Dakota has dropped 50% from 13 to 6 -- notwithstanding the fact that we have had the most benign winter in history, and that the price of crude in the last six months has gone from $10/bbl. to $18/bbl.?

A price of more than $25/bbl. will be necessary if we are going to get serious about finding significant reserves of oil. A $25 price will not be enough to make us oil sufficient, even though it will keep the oil industry alive. People who say $15 oil will put the oil industry into liquidation, and $10 oil will bankrupt it aren't joking.

Nearly 500,000 oil people lost their jobs, and thousands of oil companies and oil dependent businesses have gone bankrupt at present day prices for oil, and it is not over yet.

It is unfortunate Republicans have never understood that the American people value jobs above just about anything else, including the profit motive. Democrats have always understood this basic fact, and its importance to the people. It is unfortunate that the Democrats have never understood that jobs are made possible only by profits.

That 500,000 unemployed figure may not seem very impressive on a national scale, but its affect on one industry is catastrophic. To give this some perspective, according to the U.S.D.A., it only takes 600,000 farmers to produce 91% of all the agricultural products produced in this country.

Perhaps another simple comparison will give us a better perspective on the magnitude of the problem. Restaurants are selling coffee to their customers for 50¢ to 75¢ per cup, at which price restaurants realize $8 to $12 per gallon of coffee. By contrast, those brave enough to engage in oil exploration are now getting 43¢ for a gallon of oil, if they are fortunate enough to find it. And this doesn't cover the cost of their dry holes. (A barrel of oil contains 42 gallons.) True, we consume more oil than coffee, but there is also a lot of difference between 43¢ and $8-$12, to say nothing of the cost of making these products available to the consumer. The really essential difference is in their respective values to our national economy and our standard of living.

The difficulty of finding significant new reserves of oil is dramatically demonstrated by the fact that the U.S. has found only one giant oil field in the last 20 years: Prudhoe Bay on the north slope of Alaska. If this were our only source of oil, its 10 billion barrels of reserves would have lasted us only two years, and we would have been without any oil these last 15 years.

In the last 50 years, Russia has found only two giant fields. By contrast, the Middle East has 26 such fields, and before long, they will be supplying one-half of all the oil consumed by the entire world, which amounts to 20 billion barrels annually.

Does this explain Russia's interest in the Middle East? Perhaps you were not aware that Russia was showing any particular interest in this "hot bed" of revolutionaries and terrorists. You will be later on in this letter, and when you are, try to mentally visualize what control of one-half of the world's supply of oil means to the country or countries that have this control. For the Middle East, it means world-wide economic domination by way of an oil derived income of between $400 and $800 billion per year, depending upon whether they want to charge $40 or $80 per barrel for their oil. For Russia, it would mean world-wide Communist domination by the simple expedient of blackmail -- shutting down oil supplies. In that event, our only alternative is World War III, unless we start immediately to find all the oil we can, and in addition, start developing every other source of energy that eventually can be made economically viable, and dependably available. This won't happen of course as long as the price of oil is too cheap.

Are you wondering why the administration doesn't do something about crude prices? I would like to suggest some reasons for you to think about.

First of all, consider President Reagan's reason. On the surface, it seems legitimate, but in fact it is transparently false. Our President says he can't support an import fee because he believes in fair and free trade. What the OPEC countries were doing in flooding the market with oil, and in the process, driving down the price, can hardly be considered free trade, and it certainly is not fair. What they were doing was "dumping." The President is not going to call it that, even though there is an international agreement called GATT (General Agreement on Trade and Tariffs), that allows the United States to impose antidumping duties when this happens, or negotiate a solution. The President does not want to impose duties or import fees because he thinks he is boxed in. There are more voters that patronize the gas pumps than there are people in the oil industry.

The variable import fee is often criticized by those who are opposed to tariffs in general, because they perceive this import fee as just another tariff. These detractors do not realize that an oil import fee would operate differently than the usual concepts applicable to tariffs. Generally a tariff, when invoked against another country's product or products, puts the producer of these products at a competitive marketing disadvantage and damages their industry, and to that extent, the economy of their country. It also invites retribution, which eventually turns into a tariff war between countries who then become enmeshed in the application of tariffs to many more products.

An oil import fee would not do this. True, an increased cost of oil would have to be paid for by the consumer, but it would be paid by consumers worldwide. Industries using this form of energy would all be subject to the same costs imposed by higher crude prices and consequently would not be put at an economic disadvantage with respect to their competition.

Further, I do not believe an oil import fee would invite any reprisals from foreign oil producers. For the OPEC countries and those outside of OPEC, higher prices for oil only increases their income. The only problem that OPEC has is determining that level of production which will maximize their income, while at the same time keeping the price of crude at a level that is below what the U.S. oil industry has to have to survive.

In addition, the Middle East has approximately one-half of the world's presently known reserves of oil. Our country does not want to do anything that will alienate the Arab countries with whom we have had friendly relations in the past, and particularly does not want anything to happen that will cause the countries of the Middle East to fall under Soviet domination.

This concern has been confirmed by the war in Afghanistan. Russia wants control of Afghanistan because it is at the back door of the oil-rich Middle East. The next step in their program, and it has already commenced, is to destroy Iraq and Iran by genocide on a national scale, so they can put them and their oil reserves under Communist domination. Russia is supplying Iraq with arms to fight Iran. In order to avoid being obvious in their intent, they cannot supply arms to Iran as well so the two of them can fight each other to mutual destruction, but they can supply money to Iran to buy arms. Russia has entered into a contract to buy Iranian gas. The clincher comes with the realization that Russia does not need gas. They have a surplus of gas. Their gas reserves are six times what they are in the U.S.

President Reagan's world-wide economic and political philosophy with respect to oil may seem as though it makes good sense, and as far as it goes, it does to a certain extent. After all, nearly 50% of our present oil requirements are now supplied by foreign oil. But when our orientation on future energy supplies for the U.S. is focused entirely on maintaining the availability of foreign oil, while ignoring the fact that U.S. energy industries and their capability for finding our own assured supply of energy is being destroyed, then it's time the American people understand what's happening. This is far too dangerous a path to follow. It borders on economic and national security "brinkmanship."

It is also unfortunate that our President doesn't understand that a free market philosophy, even though seemingly wise in concept, cannot work void of the necessary discipline to insure its successful operation. It has no more chance of enduring success than would be realized by parents raising children with a hands-off philosophy and no discipline.

As long as mankind has feet of clay, there will be those who will turn our administration's laissez-faire policies into license. And this is precisely what governments have to guard against. Otherwise we will always have the Ivan Boeskys, Boone Pickens, and OPEC Cartels using their freedoms to enrich themselves while impoverishing others.

Saudi Arabia, by their own admission, wanted to drive crude prices down below $10/bbl., and for a time, did so. Their intention was to destroy enough of the productive capacity and capability of those oil producing countries outside of OPEC to be able to re-establish their former cartel and dictate the price of oil.

The fact that OPEC has since decided to support the price of oil at $18/bbl. by simply refusing to accept less, does not indicate a change in their program. They still have the same goals, but they have gotten smarter. They realized that they could still accomplish what they set out to do with $10/bbl. oil, even at the $18/bbl. price, and at the same time, reap a huge profit on their vast reserves that only costs them 50¢/bbl. to produce.

The OPEC countries know that our oil industry cannot survive at $18/bbl. Nor can it survive at $25/bbl. as long as the Windfall Profits Tax is in place.

It is easy to comprehend the unique position of control they occupy and why the practices they wish to pursue can rightfully be called "dumping." However, the importance to the United States of an adequate price for crude oil is too great for us to abdicate all responsibility for its determination to the vagaries of the economic and political actions of other countries. I see no expression of social consciousness about the world's welfare in those countries that control most of this world's present oil reserves. What's going on in this world is an economic war, as well as political, and we are in danger of losing some of its battles.

There is a clear and present danger in allowing OPEC countries to set crude prices other than the danger associated with the dismantling of our oil industry.

OPEC agreements have always been tenuous at best because of the political instability of the Middle East countries and the volatility of their people. In addition, they all have dire needs for increased income to fight their wars and service their indebtedness. The temptation for some members of OPEC to ignore agreements, cut prices and increase their market share is a matter we need to be concerned about. Broken agreements can only drive down the price of oil and do further damage to our oil industry.

A variable import fee would prevent this from happening. It would force foreign producers to come to a lasting agreement among themselves to prorate their production, and at a level that would raise the world market price to the floor level price established by the U.S. They would do this and adhere to it because they would perceive the U.S. import fee collections as money that rightfully belonged to them. They would realize that a substantial part of their profits were being transferred to the U.S. Treasury. Their own hard currency needs are too great to allow this to happen. In other words, the market proration system that worked so successfully for us for so many years would now be imposed upon foreign oil producers.

Most people are not aware of the fact that market proration of oil is nothing new. The U.S. oil industry imposed this system upon themselves during those years prior to the 1973 oil embargo when the U.S. was an oil surplus producing country. The price of oil during these years was maintained by the industry at a level that provided us with a sufficient supply of energy at the lowest possible cost commensurate with maintaining a healthy oil exploration industry. This was accomplished by a system of market demand proration. In other words, the oil production available was prorated to the extent necessary to meet the amount of oil required by the market. Most people have forgotten this, and how well it worked, or else have never known it. There is no reason why it can't work again, but only the U.S. can accomplish it.

Because of what has already happened to the U.S. oil industry, our present oil import figure will go even higher. Before long, 50% of our oil needs will be imported. That's 8 million barrels per day.

Let's suppose that 8 million barrels is going to cost us $25/bbl., (and remember, it once was $40/bbl.), we will then be sending $73 billion out of this country every year to buy oil that we have been unable to supply for ourselves. Would it surprise you to know that is approximately the same amount of money that the U.S. government has taken from oil companies under the Windfall Profit Tax?

The passage of this tax was assured when a member of Congress by the name of Henry "Scoop" Jackson from the State of Washington said, during the oil crisis, that oil company profits were "obscene." That $70 billion should have been left with oil companies to find more oil.

What is obscene is the damage that is done by this kind of ill-informed, misguided demagoguery. When politicians make use of popular prejudices and false claims and promises that supposedly champion the cause of the common people, the common people end up paying for it dearly. At present oil prices, the Windfall Profit Tax collects no revenue, but it is still costing oil companies $700,000,000 a year to administer.

Now consider these interesting thoughts. Import fee collections could be substantial. Eight million barrels per day times even $5.00 amounts to 14.6 billion dollars per year. One of the things it could be used for is the purchase of crude oil for the emergency strategic reserve storage, which is now only about half full. It could also be used to help pay part of the national debt, now over two trillion dollars. Anything that will contribute to this without disrupting the economy should be used. Although 15, 30, or 45 billion dollars applied to the national debt may seem an insignificant amount, nevertheless when the time comes that politicians consider this kind of contribution as significant, then we can hope they may have acquired a sense of fiscal responsibility, and possibly a determination to get this country's financial affairs in order.

The scary thing about our national debt is that it is going to have to be paid one way or another. As Chairman of the Federal Reserve Bank, Paul Voelker testified before Congress, the national debt is a time bomb waiting to go off. This is because debt is always paid; either by the borrower, or by the lender if the borrower defaults, or by the taxpayer. Customarily, a nation's debt is paid by (1) increasing taxes, (2) using cheaper dollars which means inflation, (3) a combination of 1 and 2, or (4) repudiating the debt.

Consumer spending is the engine that runs our economy. Alternative (1) may take enough spending money out of the consumer's pockets to throw the economy into a recession, and possibly a depression, neither one of which is going to pay off the national debt. Only a very healthy economy has a chance of doing that. Our present administration knows this and that's why they have been pushing so hard on the Federal Reserve to get more money into circulation. This in turn lowers interest rates, all of which is meant to entice the consumer and investor to borrow money and spend it. This would be fuel for the engine.

Perhaps you are curious enough to ask if there isn't a better solution than to ask the American consumer and investor to go deeper in dept in order to keep our economy from collapsing. Yes, there is. Being able to keep the $150 billion at home that we send to other countries to buy their goods every year, over and above what they buy from us, would be a tremendous help. This is our trade deficit. The solution to that problem is another matter, but it is obvious that every barrel of oil that we can supply for ourselves, instead of buying from foreign countries, is going to help our trade deficit. We also need to realize that the American people have neither the obligation nor the ability to support the economy of every country in the world. The Marshall plan is over.

Getting more money into circulation may work and it may not. If it works, it will only be because we have acquired enough confidence through observing the occurrence of a sufficient number of positive economic events to make us optimistic about the future. We will have to become brave enough to stick our neck out and borrow money. Unfortunately, some of the economic events we are observing are not favorable. Unemployment is not a favorable event. Low crude oil prices are not. Failing banks are not. Failing businesses are not. Failing farms are not. Failing debt management is not. Billions of dollars of consumer debt is not.

Although an inflated economy (the engine has too much fuel) can be brought to a halt with a fair degree of certainty, as the Reagan Administration, and the Federal Reserve have demonstrated, the reverse unfortunately does not necessarily work. All the money and low interest rates that can be brought about by governmental action will avail nothing if we lack confidence and refuse to take advantage of it. It's like pushing on the end of a wet noodle. It doesn't go any place. So how does the future look to you right now? Is it important to change some of the unfavorable events if we can?

Alternative (2), inflation, is probably the most tempting way out if it can be controlled, and it has a fair chance of being controlled if politicians can be relied upon to bite the bullet and allow the steps necessary to accomplish this. They will have to ignore their own penchant for spending plus the pleadings of those of their constituents who want more and more inflation because they think they are making more and more money.

Inflation does not greatly help the wage earner because the cost of living goes up about as fast as his income. It can be said however, that a person is better off handling a lot of cheap money than not having hardly any money at all. This is only true, of course, if he is smart enought to stay out of debt, and put some money away in safe interest-bearing savings. These savings are his hedge against the disaster of a depression. In this event, those savings will be worth ten times as much in purchasing power as they were before. It's hard to make money faster than that.

If inflation is not controlled, the ones that are hurt most when there is too much inflation, and in the process have no way of protecting themselves, are those on fixed incomes. They go from adequate incomes that would enable them to live out the remainder of their lives in modest comfort, to experiencing absolute penury because their incomes have been drastically cheapened by high inflation rates. Eventually they can only afford the bare necessities of life -- if that. They have been "mugged." Who are these people? They are the retirees and Senior Citizens. More descriptively, they are our fathers and mothers.

On the other hand, maybe they had it coming, but just couldn't see it. How many of them spoke out loud and clear to their representatives in Washington, when those representatives were spending money they didn't have, and we didn't have? In that sense, we deserve what we get. I say we because I am a Senior Citizen too, and never have I taken the trouble to tell my congressmen that I didn't like what they were doing. What is even sadder than what happens to us closed-mouthed oldsters, is the fact that we have allowed our children's lives to be mortgaged, and I don't think we had the right to let that happen.

In our defense, most of us have been beguiled and fooled by glib-mouthed politicians filled with unsustainable promises who have arogated unto themselves an air of problem solving erudition and intelligence which they do not possess. Perhaps we would have known better than to buy their phony allegations and promises of "blue sky", if we had realized that most politicians do not come up with solutions, they come up with programs; that the treatments they were dispensing were what made us sick in the first place.

Alternative (4) is not an option. At least it is not an "out" that our government would consciously take as a solution. It is completely immoral and only happens when governments are forced into it by economic conditions that are so bad there is no other recourse. And therein lies an interesting point that brings us back to oil prices again.

There are several oil producing countries that are so deep in debt that they have no hope of paying it off at the price they are now getting for their oil. They have borrowed heavily from U.S. banks. Mexico alone owes $98 billion of foreign debt. These loans were made on the premise of crude oil prices of $40/bbl. and possibly going to $60/bbl. At $10/bbl., these countries had to borrow more money to pay just the interest on their loans; in other words, adding debt to debt. It's called the "Mexican roll over."

Does repudiation of debt by these countries seem like a possibility if crude prices stay too low? If it happens, the result on U.S. banks will be devastating. The U.S. Government would have to bail them out and that means you and me. Wouldn't it have been nice if our banks had required that these countries put up collateral for their loans, like they do with U.S. citizens? We might be able to foreclose Mexico's loans and take Baja, California. If that seems far fetched, how about their oil reserves as collateral? An arrangement like that might instill a sense of financial responsibility in some of these free-wheeling borrowers. Unfortunately, it's too late for that.

You might want to muse on this. Why did oil exporting countries have to borrow money, when they were realizing a cornucopia of wealth from oil export prices twelve times as high as they had ever been in history? The answer of course is uncontrolled spending. When there is money available, there are very few people in the world who know how to manage it; even less when it isn't their money. Include some of our politicians in that category.

When all this borrowing was taking place, the big banks were right there to accommodate the borrowers in the interest of an ever-improving "bottom line" to their profit picture. Those repositories of financial wisdom and counsel abandoned the very foundations of banking stability in the interests of - you guessed it - greed. These banks cannot go to the American people and profess innocence based on a faith in the future price of oil as collateral for their loans. After all, there was not a shortage of oil and the price of oil was sustained only by a cartel arrangement between dissident countries. Up to that time, there had never been a cartel in history that had succeeded beyond a few years before falling apart. It is the big banks, not the small ones, that have allowed this morass of financial instability to happen. But small banks in this country are having their troubles too. There were 123 bank failures last year alone; a high percentage of them due to the oil industry depression. This year, they are failing at the rate of 170-200 per year. Fifteen hundred are in trouble. If a satisfactory price for oil can be established soon, the banking industry can be immeasurably helped.

What worries me almost as much as national, and some international debt, is consumer debt, now at about 80 billion dollars and going up. The latest bit of financing wizardry now being promoted by some lending institutions is the encouragement being given to homeowners to take out a second mortgage on their homes, so they will have some money to spend. If this isn't financial chicanery in these times, then the word has no definition. But we can all blame the federal government for leading the way and making it appear that debt is all right because, after all, those wise heads in Washington have been doing it for years, and they are supposed to be smart. We elected them because they were, didn't we?

There is a vast difference in nature between national debt and consumer debt. If national debt is of manageable proportions, the federal government has recourse to our pocketbooks as a workable solution. The other advantage they have is they don't pay income tax.

This latter is the crux of our problem when personal debt becomes too great. For example, suppose you borrow $10,000 from a bank and you plan to repay it in five years, at the rate of $2,000 per year plus 10% interest. Your first payment of $2,000 is going to require that you come up with $2,000 on the principal and $1,000 in interest out of your earnings. But Uncle Sam wants the income tax on that $3,000. Suppose your income tax rate is 30%. The IRS takes 30% of $3,000, leaving you short $900 on your $3,000 payment. So, throw in $900 more of your earnings to get up to $3,000. Now the IRS says 30% of $900 is theirs, leaving you $270 short, etc. Admittedly, the timing for IRS payments and loan payments are not apt to be the same, but the end result is. In the end, $18,532 of your earnings were committed in this $10,000 loan transaction.

How many of us have said, "Where does the money go?" True, there is nothing new in these figures, except a different way of looking at debt. It helps us understand better how difficult it is to get out of debt, especially in a stagnant or declining economy. No wonder the administration is trying desperately to keep the economy expanding. Let's hope they succeed, but we need some positive economic events for this to happen.

When foreign goods are cheaper than U.S. goods, economists and politicians tell us that U.S. consumers benefit greatly because it makes it possible for them to save money by buying these goods. This is true, until you get into the area of trade deficits. The phrase, "trade deficit", like a lot of words and phrases, is not self-explanatory as to ultimate meaning. What trade deficits really mean is that we are exporting our standard of living and paying for the privilege besides. Do you think it would be a good idea to reduce the amount of money that we are being required to spend for foreign oil and thus help reduce our trade deficit, which has been running between $150 and $200 billion per year? The only way that can happen is to have oil prices high enough so that oil companies have the money to explore for our own reserves.

You may think I have been hard on politicians. Actually, I am not down on "politicians" as such at all. We rely on politicians to make our democratic system work. What I am down on is what some politicians do that they shouldn't, and what they don't do that they should. Their political party is irrelevant. No party has an exclusive and legitimate claim on intelligent, common sense, fair-minded candidates. No party is without those hucksters who are perfectly willing to shut their eyes to the welfare of the country or some of their constituents, if it enhances their own chances for election. That's an extremely high price for citizens to have to pay so that a politician's ego and immaturity can be satisfied.

To their credit, politicians are responsible for a great deal of good legislation. No good purpose is served by criticizing politics and politicians if in the process we impugn the integrity, honesty, and hard work of truly dedicated and intelligent servants of the people. It is to them that we owe much of the progress that has been made, but even they have their blind side. That is why it is not enough to elect a good man, and then forget him. He needs our voice as well as our vote during his term in office.

Neither can we elect people to office and assume thereafter that they are fit for the job. That has to be proved. We also have to recognize the fact that a "well known name" in politics is not a qualification. How else can we account for the fact that some of the things that politicians do, or do not do, are so totally incomprehensible?

At the national level, how do we account for a debt that is so astronomical that no one can give you an answer when you ask, "Where is the money going to come from to pump up the economy if we have a depression?" In the 1930's depression, our national debt was so small that incurring additional debt to help restore our economy was a workable idea.

How do we account for a social security system that stands a good chance of "breaking" us or going bankrupt?

How does one account for a welfare system that perpetuates the need for welfare and promotes a growing dependence on government support?

How does one account for agricultural programs that are supposed to solve the plight of our strapped and depressed farmers when in fact these programs are chiefly notable for what they cost the taxpayer; this year an estimated $30 billion. No solution, mind you, but a heck of a program.

To get back to your editorial, and the problems of the oil industry, you stated that the oil industry has always asked for less government regulation, not more. You are correct, they have, and for no other reason than to be able to get on with their work and do the job they know has to be done -- this time, soon. The oil industry has no peer in accomplishing what they set out to do if their working conditions are not made impossible for productive effort.

There are times and circumstances however, that dictate the need to go to government and ask them to do those things that only governments can do to make productive effort possible - a legitimate role of government. Even in such cases, the oil industry does so with a considerable fear of a do-nothing response from government, or a political or bureaucratic action that only makes things worse instead of better.

The oil industry knows from past experience that they are considered fair game for any politician who wants to enhance his public image by slandering their integrity and social consciousness. They also know that their industry is too often perceived by politicians as a source of revenue, notwithstanding the fact that such recourse might be punitive or unfair, and irrespective of the damage it might do to our energy industries and to our country. These are pitiful commentaries to have to make, but that's why you will find some people in the oil industry in opposition to the oil import fee. They run scared of the damage that politicians can do.

For example, the realization of an import fee income to the government might turn out to be a monetary addiction politicians couldn't refuse to perpetuate. This would happen when Congress decided to make the import fee a fixed fee, instead of a variable fee. At that point, we would have an excise tax. This would be abusive and harmful to the world economy and would start to operate in that fashion once the target price for oil, under the variable import fee, was exceeded by the world market price for oil. This is a risk we are going to have to take. We will have to hope that our politicians will not make this mistake.

We are now circling the field and will soon be coming in for a landing. Before the wheels touch down ending this rather lengthy sojourn, and at the risk of sounding like a "flag waver", the most important element of all, and as yet unsaid, is that we in America are faced with a serious erosion of our freedoms. Warnings about the loss of our freedoms are such a favorite grist for the speechmaking mills of politicians, that we pay little or no heed to its use or meaning. But it seems to me that there is something about this concept of "freedom" that needs to be understood.

Freedom is not a product of democracy even though the two words are often used so loosely that we have come to think of them as interchangeable. Democracy is an opportunity. It is a form of government that provides only the possibility for having freedom. This opportunity, neglected, ignored, and misused makes of democracy an oppressor just as surely as is a totalitarian regime. When that happens, we need not posture before the governments of other nations about the freedoms inherent in democracy.

Freedom is a child of Truth, not of democracy. Democracy in American has always been attributed to the foundations laid down by a few wise men, the Founding Fathers of this country. Although they understood the meaning and value of freedom, and therefore intended that it be established, it is my belief that they also understood that our democracy was an opportunity provided by God, that man might find and live truth's freedom: that it was granted to those who sought these shores for that reason- and thereafter to worship God, not men; nor the schemes of men; nor their governments. (We cannot find truth in that deification of man brought about by the exercise of good intentions.)

Notwithstanding the fond hopes and dreams of the founders of this country, is democracy failing? This is a question that is clearly worth asking, considering that our republic may be in danger of being unable to save itself from its own excesses. Thinking, freedom-loving people will not be satisfied with those who are willing to follow the dictum of the British who say, in the face of seemingly insoluble problems, "We will muddle through." A declining empire should give no comfort to that philosophy. Neither should we take comfort in those pat answers that skirt the issues of the failings of government by declaring that America and it's democracy has delivered the highest standard of living in the world. That standard of living is now on a downward slope. If the material presented in this writing appears to you as possible evidence of that fact, please understand that none of these projections and explanations are the essential reasons for this happening. They are only the mechanisms by which it will happen. The essential reason can be summed up in one word, "accountability" - more precisely, the lack of it.

Were the writers of those precious documents that established the framework by which our democracy operates unaware of the very basic necessity of accountability? Indeed not. The system of checks and balances was a part of their awareness. Another, and more essential part, was the ballot box, and they foresaw this as the essential element of democracy that would be the guarantor of accountability.

The founders of our country could not foresee the complexity of modern day society which, for all practical purposes, would preclude any possibility of an informed electorate on the many complicated issues with which they would be confronted. They could not foresee that the burdens thus placed on the shoulders of the voter left him with no recourse but to place his trust in what he hoped would be honest, above-board and intelligent politicians.

Even if they could have foreseen the immensity of this burden, they probably would have felt that a very important and basic element of this new democratic form of government would not be soon forgotten: that when a people allowed a government to control the governed, they had a right to expect those that govern to control themselves. Perhaps they relied too heavily on the memory and virtue of man.

They did not foresee that the minds of devious men would exploit the voter's dilemma in order to serve their own aggrandizement, and thereafter perpetuate themselves in office by the same means. They did not foresee that they would do this by employing every artifice from a carefully planned Madison Avenue "hype" promoting a "grace and favor" system designed to make even their most inane pronouncements prevail over common sense - to the outright obfuscation of the truth. The voter's dilemma has been compounded by the adroitness of those politicians who are more interested in serving their own self-interests first, and those of the citizens and the country next, in that order, if at all.

Now, why all the effort to write this lengthy piece? Obviously, I think the messages it contains are important. In addition however, I think it is essential that people have the opportunity to give full vent to their moral sentiments. It is this venting of moral concerns that is the very essence of our democracy. And that is important because, if we can't make our democracy work the way it should and was meant to, we will lose the means for our freedoms, the gift that God gave us.

Sincerely,

Bruce P Alfson

bird oil corporation

July 2, 1987

The Honorable Representative Rostenkowski
Chairman House Ways and Means Committee
2111 Rayburn Building
Washington D.C. 20515

Dear Representative Rostenkowski:

It is my opinion that the choices you are about to consider with respect to revenue sources in meeting deficit reduction targets offer, in varying degrees, secondary benefit or possibly detriment. On the positive side, the clearest choice with respect to secondary benefit being derived from a deficit reduction revenue source resides with the concept of an import fee on petroleum and refined petroleum products.

The indirect cost subsidy to consumers of oil, be they American or foreign, currently being paid by the American government is real. A recent Harvard report estimates $10.00 to $11.00 per barrel. Former Secretary of the Navy Lehman in a June 1, 1987 Newsweek interview pointed out that we pay some $40 billion per year to keep oil moving out of the Persian gulf.

It is not in the economic or military interest of this Nation or other free world countries under our protective umbrella to continue without a credible national energy policy that has as a cornerstone a long range plan setting forth a methodology whereby liquid hydrocarbons are replaced as soon as possible as this Nation's primary source of energy. Let's look at some of the cornerstones of our current policy. Last year the United States, according to the IPAA, imported 1,155,000 BOPD (annualized 421,575,000 barrels) from Arab OPEC countries. Using former Secretary Lehman's number of $40,000,000,000 in annualized Carter Doctrine costs to keep Persian Gulf oil moving, we arrive at a social cost of $94.88 per barrel delivered to America. I am sure you have noticed how the Japanese and Western Europeans said thank you for the subsidy under the Administration's "Free Trade" policy toward oil. The concept of strategic petroleum reserves is excellent if handled correctly by all consuming countries in concert. Our current efforts appear misguided largely due to the lack of a well-defined energy policy. At present the plan is to fill the Reserve at a rate of 35,000 barrels of oil per day. The interesting part is that at the same time we are draining the Naval Petroleum Reserve at Elk Hills at a rate of 100,000 barrels

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per day and using the entirety of the proceeds to offset, at the GAO, the cost of filling the Reserve.

Conventional domestic sources of liquid hydrocarbons remaining to be discovered in the United States do not offer realistic potential for energy self-sufficiency irrespective of granting the oil and gas industry additional tax breaks to look for conventional sources of hydrocarbons, exploration of ANWR, or repeal of the windfall profits tax. What this Nation's conventional domestic sources of liquid hydrocarbons and continued exploration for same does offer is reduction in the risk level associated with increasing reliance upon and stepped up protection of less stable sources of foreign oil. Risks are being defined to include military confrontation in the Persian Gulf as well as the economic and security exposure that would arise from supply disruption or price shocks. Given the fact our domestic conventional liquid hydrocarbon base is being depleted at a rate significantly greater than it is being replaced, the time frame where we can materially affect the risk level in a positive manner is short term in nature. During this time frame, we must commence realistic development of the alternate primary fuel sources which are of abundance within this Nation or face the prospects of; operating without any insurance as to guaranteed future liquid hydrocarbon supplies or going to war to take the oil we need as the ultimate form of insurance coverage.

During the 1970's, we witnessed the rapidity with which price shocks developed when OPEC was able to sell eighty percent of its producing capacity on the open market. In the current political environment we have literally watched energy security drop off of the national agenda in a six-month period. As the same time, the dismantling of non-OPEC free world exploration and resultant decreases in reserve additions pushes us once again toward an OPEC control situation where there is market for 80% of OPEC capacity. I remain convinced that the current Administration is not in a position to successfully focus upon the energy issue due to the pressing nature of the Iran-Contra affair and the consistently biased and intellectually misguided attitude demonstrated with respect to the energy issue under the guise of "Free Trade" policy. While an effort is being mounted by such groups as Energy Security Policy, Inc. and The Council For Energy Assurance to provide a credible blueprint for a long term national energy policy, I believe it idealistic to assume anything will come of such efforts in the short term.

Ironic as it may seem, as a result of the pressing need to raise revenue, the House Ways and Means Committee is probably in the best position to affect this Nation's energy future at this time. Passing through the true cost of conventional liquid hydrocarbons consumed in this country to ultimate consumers rather than subsidizing those costs is in the best long-term interest of this Nation. The objective can best be achieved through the use of an import fee on all liquid hydrocarbons and hydrocarbon products imported into this country. At a minimum the fee should be set to guarantee price stability at levels sufficient to:

a) cause continuance of an acceptable level of conventional hydrocarbon exploration in this Nation until more abundant and, hopefully, cleaner alternate sources of primary energy can be developed;

b) prevent further unwarranted erosion of our stripper well base prior to such time as the true potential for enhanced recovery (estimated to be over 300 billion barrels) from existing fields can be brought from the research laboratory to actual implementation;

c) significantly stimulate alternate primary fuels research;

d) force continued increases in hydrocarbon conservation;

e) create reserves for the future cost of cleaning up hydrocarbon pollution;

f) stabilize, if not reverse, growing over-dependence on foreign sources of liquid hydrocarbons.

The most critical factor in self-mandating our energy future will come through buying time to develop alternate more-reliable primary energy sources. This will only happen if our existing conventional hydrocarbon resource base is protected and alternate fuels research allowed to proliferate. Neither will happen in an environment where the potential for significant downward price instability may be mandated at will by unstable and often unfriendly foreign powers.

At this moment in time you and your fellow committee members stand alone in a position to cause the critical first step to be taken towards building a better energy future for this Nation. I hope you will grasp the opportunity.

Very truly yours,

BIRD OIL CORPORATION

Robert T. Birdsong, Jr.
President

ENERGY SECURITY POLICY

National Committee for a Variable Oil Import Fee

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FACT SHEET -- THE CASE FOR AN OIL IMPORT FEE

America's domestic oil and gas industry is in a shambles. A few years ago one of the nation's major economic pillars, the industry today is being dismantled ... supply and service companies going out of business daily, drilling rigs standing idle or being cut up for scrap, the domestic reserve base shrinking, geology and petroleum engineering schools no longer producing the numbers of graduates necessary to staff a viable industry, alternate fuel research grinding to a halt, consumption increasing, and the nation marches toward an inevitable economic shock when we are forced to hastily make a conversion from crude oil as our primary source of fuel.

The domestic industry is being manipulated like a yo-yo by OPEC governments. Instability and uncertainty deny the industry access to the capital necessary to resume the search for new reserves and thus free America from over-dependence on unreliable foreign sources of energy.

Enactment of a variable oil import fee can reverse the spiraling downward trends sapping America's energy strength. Consider these facts:

- In 1986, outside investment in the oil and gas industry dropped 10 fold from the 1981 peak -- declining to $380 million, the lowest in a decade.
- The domestic rig count dropped from approximately 4,500 in October 1981 to under 800 today.
- Our economic competitors within OECD have historically paid significantly higher prices for crude than we in the United States. Now we need to charge a sufficient price for energy to create incentive to invest in developing alternate primary fuel sources and thereby ensure orderly transition to more abundant fuel sources.
- In 1985, 27% of the total amount of oil consumed in the United States was imported; the National Petroleum Council projects that dependence will rise to 60% in 1990, 68% in 2000.
- The unemployment rate in oil producing states is from 2 to 6.6 percentage points higher than the national average.
- The 1973 and 1979 oil price shocks increased the unemployment rate by approximately 1.5 and 2 percentage points, respectively. In today's economy, each percentage point increase in the unemployment rate means the loss of more than 1 million jobs.
- An oil import fee could produce a high percentage of the current federal revenue shortfall, yet at a modest direct cost to the consumer.
- The Joint Committee on Taxation projects that a $24 per barrel variable oil import fee would produce $12 billion in 1988.
- For every $1 per barrel increase in the price of crude, the consumer would pay only 2 1/2¢ more per gallon at the pump.

STATEMENT OF REP. DICK CHENEY
of Wyoming
Before the House Ways and Means Committee
July 15, 1987

Mr. Chairman, this committee has the opportunity to take a single action in the name of deficit reduction and accomplish three important objectives. It can generate revenue to help reduce the budget shortfall, take a step toward providing America with a more secure supply of energy, and help construct a more sound domestic energy policy. Each of those goals can be reached by the imposition of a small fee on imported oil.

I am pleased to see that the Joint Committee on Taxation includes an oil import fee among the options to consider as this committee explores its revenue options. All of the possibilities listed by the Joint Committee will undoubtedly raise revenue. But only the oil import fee has two additional benefits: it will help make America less dependent on the whims of OPEC, and it will start rebuilding a key part of the American economy. I hope the Ways and Means Committee will keep that in mind as it considers the possible approaches before it today.

It takes an episode like the attack on the U.S.S. Stark, and the subsequent debate over flying the U.S. flag on Kuwait's oil tankers, to remind us of how addicted we have become to Middle Eastern oil. We have been ignoring our addiction, and we are taking the daily dose of OPEC for granted. This week's figures from the Energy Information Administration show us to be using about 16.5 million barrels of oil a day, with 5 million of that coming from foreign sources. And nearly half that imported oil comes from OPEC.

America is importing 30% of its daily energy needs. Last year, we grew increasingly reliant on foreign sources of oil, and that trend continued in the first quarter of 1987---the period for which the most recent figures are available. That means we are bringing in more oil from OPEC as a whole and more oil from the Arab members of OPEC.

Those figures alone don't necessarily inspire concern, because they don't tell the whole story. But OPEC's cheap oil causes two problems: it increases demand for oil, and it continues to erode the strength of our own oil industry. Even the Department of Energy concedes that 50% of our needs could soon be supplied by imports.

The American oil industry is drowning in a sea of imported oil, and Congress ignores this fact in the apparent belief that the consumer is doing just fine at the industry's expense. But there can be no doubt that this won't last long. All the experts agree that prices will soon go up again. OPEC will see to that. So the question is whether we want the price increase to go to OPEC or whether we want to take action on our own to raise prices now. If we raise them now, through an oil import fee, we can help offset the deficit and help rebuild our own energy supplies here in the United States.

I hope this committee will consider, as it weighs alternate ways of raising revenue by taxing energy, that a gasoline tax or a BTU tax won't do a thing to get America's own oil industry back on its feet. The problem is serious. Since 1982, employment in the industry has dropped from 708,000 to 422,000. And nearly half that decline came only last year. The number of oil and gas wells drilled in 1986 was 40% lower than the year before.

In addition to the obvious costs of high imports and low oil prices---more unemployment, fewer drilling rigs, declining American oil production---there are hidden costs. The industry is unable to continue exploration and development of new oil fields. It has stopped research on new drilling, production, and refining techniques. The discontinuation of these projects is unavoidable at current prices, but it is catastrophic for the long term energy security of the United States.

We're simply not looking for new reserves of oil, and we've stopped producing vast amounts of what we know is in the ground, waiving the option to recover much of that. We're losing the ability to respond to an energy emergency, because the energy foundation of the United States is being allowed to decay. We can't see energy policy clearly, because we're dizzy on the cheap buzz of low oil prices.

Since last year, I have advocated a variable oil import fee with a target price of $24 a barrel. The American Oil and Gas Reporter's annual survey of independent operators reveals that if oil prices reached that figure, half the independents responding say they would drill as many wells as they did in 1985, the year before the price crash. And many of those surveyed said price stability is at least as important as price itself. An oil import fee with a $24 goal would provide both stability and a price at which the American oil industry could get back to work, as it wants to.

Given the current price of oil, the import fee would probably be between $3 and $5 a barrel. Separate opinions from DOE and from the Joint Committee on Taxation estimate revenue from such a fee at around $12 billion in Fiscal Year 1988, reaching a five-year total of between $35 and $55 billion. That assumes no exemptions would be granted, which is as it should be. Exemptions would make the concept ineffective and hard to administer. The Crude Oil Entitlements Program, created by the federal government to share the pain of oil price controls, was an administrative disaster. It took years to dig out from under the regulations.

A few of my colleagues oppose an oil import fee in the belief that it would hit some regions of the country harder than others and would therefore be unfair. I believe this conventional wisdom is incorrect. While eastern states rely more on oil for home heating, western states actually have the highest per-person energy consumption in the nation. Massachusetts, for example, ranks 46th in the nation in residential energy consumption per capita and 51st (counting the District of Columbia) in per capita use of energy for transportation. In fact Alaska has the highest rate of energy consumption per capita, followed by Louisiana, Wyoming, Texas, and Oklahoma. New England has one of the lowest rates of residential energy consumption in the nation.

Energy consumption is not a regional issue, and neither is national security or the health of America's energy industry. An oil import fee is good public policy, because it accomplishes several objectives in addition to raising the revenue this committee is looking for. A gasoline tax, among the options the Joint Tax Committee has suggested, will merely raise revenue. It will probably not create much incentive to conserve energy.

I know some in the Senate are saying that the vote during the first week of July, on Senator Bentsen's amendment to the trade bill, marks the end of hopes for an oil import fee. I do not believe that to be the case. I hope this committee will set its own independent course, because the import fee would put America back in control of its own energy policy.

There is no such thing as cheap energy. We don't have it now, because we are bearing so many hidden costs, including the shift of production from the United States to OPEC. We will soon pay dearly for it as the price moves up. By imposing the price increase ourselves, we keep the money in the United States---creating jobs, stimulating new investment, and raising money to ease the deficit.

I urge this committee to look beyond the familar and facile arguments against an oil import fee and to give it serious consideration.

Thank you, Mr. Chairman, for the opportunity to present my views before the Ways and Means Committee.

July 15, 1987

The Honorable Representative Rostenkowski
Chairman House Ways and Means Committee
2111 Rayburn Building
Washington, D.C.   20515

Re: The Advantages of an Oil Import Fee
as a Deficit Reduction Revenue Source

Dear Representative Rostenkowski:

When closely examined, a substantial part of our nation's budget deficit, trade deficit and Middle Eastern policies are closely tied to our *growing dependence on imported oil from Arab OPEC sources*. The events of the past 18 months, and the Reagan Administration's response to these events, have increasingly lead this nation to the *brink of a quagmire*, beyond which there may be little hope of return.

The chain of events which commenced early last year were implemented by Saudi Arabia. Their actions were essentially a *predatory pricing scheme* designed to regain the market share in petroleum that they had lost during the previous five-year period. Predictably, the Administration's "free-market" ideologues opted for a laissaz-faire solution to a problem that required practical remedies. Their inaction has been responsible for the *demise of a vital domestic petroleum industry* and, in turn, has made the United States perilously dependent on foreign oil.

In 1985, the U.S. imported 30.4% of its total supply. In 1986, we imported 35.2%, *an increase of nearly 16% in just one year*. In 1985, only 472,000 barrels per day, some 9.3% of total imports, were from Arab OPEC nations bordering the Persian Gulf. In 1986, the U. S. imported some 1,155,000 barrels per day or about *19% of its foreign oil from Arab OPEC nations*. As a result, *American consumers in 1987 will pay foreign nations about $5.5 billion more* at $21.00 per barrel than they did in 1985 at $24.09 per barrel.

The D.O.E. projects that *OPEC will reach 80% of its production capacity by 1990*, at which time the U.S. is expected to be importing about 50% of its oil supply. Similar conditions prevailed in 1973 and 1979 which enabled OPEC to respectively double and triple prices. Once again *the stage has been set for higher oil prices*, and we as a nation face *huge future trade deficits* as the result of increasing reliance on a foreign oil supply. In addition, there is a strong possibility that approximately *19% of our imported oil* would be *cut off completely* unless we are willing to defend those interests in the Persian Gulf. The *shortfall would be greatly exacerbated* by our treaty to supply our trading partners who import much more of their oil supply from the region than we do. If Congress will act swiftly and effectively, I believe that the most serious of these problems can be alleviated.

In spite of President Reagan's rhetoric, it is becoming eminently clear that the purpose of our increased military presence in the Persian Gulf is to protect our oil supply. Thus, a *failed energy policy has lead to a precarious and expensive foreign policy in the Middle East*. The United States is said to be spending some *$40,000,000,000 per annum* to escort oil tankers through the Straits of Hormuz, making the *effective cost* of oil to the U.S. from that region *nearly $100 per barrel*. But the ultimate price has been paid by 37 American sailors and their families, victims of shortsighted policies and inadequate leadership. Reflagging Kuwaiti tankers will exacerbate an already tense situation in the Persian Gulf, bringing us even closer to a *full confrontation*. You and I both know that this would be imprudent, uneconomic and unnecessary.

Several steps could be taken by Congress which would raise revenues, reduce deficits, assure energy security and reduce the risk of U.S. involvement in war in the Middle East. These include:

> Continue to *fill the Strategic Petroleum Reserve*. Nations who we have agreed to supply in a crisis situation should be billed for their proportionate share of the cost to fill the reserve.
>
> *Discontinue producing the Elk Hills Naval Petroleum Reserve*. It makes no sense, to even the most casual observer, to fill the Strategic Reserve at the rate of 35,000 barrels per day while draining Elk Hills at the rate of 100,000 barrels per day.
>
> Require that importers of foreign oil stockpile at least 10% of their annual supply in the United States.
>
> Reduce tensions and cost in the Persian Gulf by negotiating an agreement with the Soviet Union to withdraw all but a skeleton force in that region. If *Japan and Western European nations* want us to continue assurance of their Mid-eastern oil supply, they *should pay their proportionate share* of the cost for such assurance.

Set a *floor price* of $22 per barrel for imported oil. This would hardly affect present prices and is the *best deterrent to future predatory pricing schemes* by foreign oil producing nations.

Impose an oil import fee as a revenue raising measure. A $10 per barrel fixed fee would raise $22 billion at the current import level, and a variable fee would reportedly raise between $8 and $12 billion for fiscal 1988. In addition, to raising revenue, an oil import fee would also act to *stabilize our domestic oil industry* which, in turn, would make the U.S. less dependent on foreign oil. Such a fee would also offset at least part of the social cost currently being subsidized by the American government. In time, OPEC would no longer be in control of our supply, and we will have regained our energy security. *No other single incentive or revenue raising measure will have the effect of an oil import fee!*

Congressman, our well being, and that of future generations, is in your hands. Will we be an energy dependent, debtor nation constantly on the brink of war; or will we identify our problems and take the actions necessary to rebuild the pride, stability and self-sufficiency that we as Americans once knew. Thirty-seven good men died on maneuvers in the Persian Gulf, borne out of *questionable foreign and energy policies*. Whether they are victims or heroes remains to be seen. If we heed the warning and take control of our own destiny, if we avoid senseless ideologies and rhetoric, embracing instead *prudent and rational solutions* to real problems, then the threat of an energy shock, a Mid-eastern war and a bankrupt nation will fade into an all-too-real past, and the men on the Stark will not have died in vain.

Thank you for considering my recommendations. If I can be of further service, please do not hesitate to contact me.

Very truly yours,

Gregory P. Kraus

Gregory P. Kraus
Certified Petroleum Geologist
2951 Olympia Lane
Evergreen, Colorado 80439

PEAK YEAR MILESTONES

Seismic Crew Count	1981	8,172
Acreage Under Lease	1984	588 Mill. Acres
Rotary Rigs Active	1981	3,970
Wildcat Wells Drilled	1981	17,430
Oil Wells Drilled	1984	44,472
Gas Wells Drilled	1981	19,742
Dry Holes Drilled	1981	26,972
Total Wells Drilled	1981	89,234
Footage Drilled	1981	407 Mill. Ft.
Crude Oil Production	1970	9,637 Thous. B/D
Stripper Well Production	1961	1,622 Thous. B/D
Petroleum Imports	1977	8,787 Thous. B/D
Petroleum Demand	1978	19,209 Thous. B/D
Natural Gas Production	1973	22,648 Bcf

DATA SOURCES:

1. Seismic Crews: Society of Exploration Geophysicists; Acreage: IPAA; Wells: API
2. Rotary Rigs: Hughes Tool Company; Wells and Footage: API (estimated completion basis)
3. Producing Wells: *World Oil;* Stripper Wells: National Stripper Well Association (NSWA)
4. Drilling Costs: Joint Association Survey; Oil Field Wage Index: IPAA; All Other Indices: Dept. of Commerce

5.-6. Energy Information Administration (EIA); API, American Gas Association

7.-11. Strippers: NSWA; All Other Data: EIA

12. Wellhead Prices: EIA; All Other Data: IPAA
13. Wholesale Prices: IPAA; Retail Gasoline Prices: *Oil & Gas Journal*
14. Employment: Bureau of Labor Statistics (BLS); All Other Data: IPAA
15. Rate of Return (Mfg.): Federal Trade Commission; Wages: BLS; All Other: Chase Manhattan Bank
16. Department of Commerce

NOTES:

A. All percentages, ratios and equivalent/composite prices calculated by IPAA.

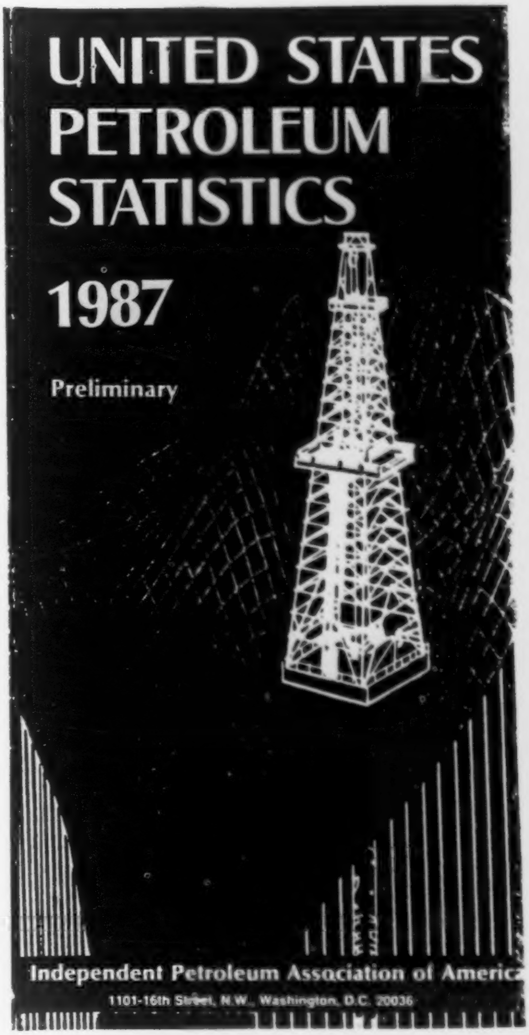
B. Crude oil production and imports include lease condensate.

C. Petroleum reserves in 1970 include 9.6 bill. bbls. crude oil and 26 Tcf natural gas from the Alaska North Slope.

D. Imports for the Strategic Petroleum Reserve are included only in Table #10, "Imports by Origin".

E. Gasoline wholesale prices are for leaded fuel prior to 1982 and unleaded thereafter. Gasoline retail prices are for unleaded beginning in 1985.

Direct inquiries to IPAA Information Services Dept. (202) 857-4760



UNITED STATES
PETROLEUM
STATISTICS

1987

Preliminary

Independent Petroleum Association of Americ
1101-16th Street, N.W., Washington, D.C. 20036

1. EXPLORATION ACTIVITY

Year	Seismic Crew Count	Acreage Under Lease (Mil. Acres)	Wildcat Wells Drilled				Total New-Field Wildcat Wells
			Total	Oil or Gas	Dry	% Dry	
1967	3,337	327.9	8,878	1,518	7,360	82.9	5,260
1968	3,268	333.7	8,879	1,440	7,439	83.8	5,205
1969	3,156	345.9	9,701	1,700	8,001	82.5	5,956
1970	2,340	343.3	7,436	1,241	6,195	83.3	4,829
1971	2,655	363.6	7,131	1,136	5,995	84.1	4,636
1972	3,016	371.6	7,551	1,349	6,202	82.1	5,011
1973	2,999	385.0	7,771	1,733	6,038	77.7	5,096
1974	3,662	404.9	8,969	2,075	6,894	76.9	5,946
1975	3,416	396.8	9,459	2,252	7,207	76.2	6,238
1976	3,140	400.6	9,317	2,461	6,856	73.6	5,856
1977	3,063	416.5	10,140	2,738	7,402	73.0	6,162
1978	4,229	431.2	11,030	2,975	8,055	73.0	6,731
1979	4,443	448.9	10,735	3,256	7,479	69.7	6,423
1980	5,915	472.7	12,870	3,862	9,008	70.0	7,332
1981	8,172	513.4	17,430	5,183	12,247	70.3	9,151
1982	7,060	539.4	15,683	4,582	11,101	70.8	7,339
1983	5,681	586.2	13,598	3,719	9,879	72.6	6,036
1984	5,931	587.6	15,138	3,922	11,216	74.1	6,528
1985	4,539	566.9	12,430	3,111	9,319	75.0	5,580
1986	2,355	N/A	8,184	2,075	6,109	74.6	3,152

2. DRILLING

Year	Rotary Rigs Active	Total Well Completions				Total Footage Drilled (Mill. Ft.)
		Oil	Gas	Dry	Total Excl. Service	
1967	1,135	15,329	3,659	13,246	32,234	141.4
1968	1,169	14,331	3,456	12,812	30,599	145.0
1969	1,194	14,368	4,083	13,736	32,187	157.1
1970	1,028	13,043	4,031	11,099	28,173	138.6
1971	976	11,903	3,983	10,382	26,268	127.3
1972	1,107	11,437	5,484	11,013	27,934	138.8
1973	1,194	10,251	6,975	10,466	27,692	139.4
1974	1,472	13,644	7,168	12,205	33,037	153.8
1975	1,660	16,979	8,169	13,736	38,884	181.0
1976	1,658	17,697	9,438	13,805	40,940	187.3
1977	2,001	18,700	12,119	15,036	45,855	215.7
1978	2,259	19,065	14,405	16,591	50,061	238.4
1979	2,177	20,689	15,166	16,035	51,890	243.7
1980	2,912	32,120	17,132	20,234	69,486	311.4
1981	3,970	42,520	19,742	26,972	89,234	406.5
1982	3,105	39,252	18,810	25,827	83,889	375.4
1983	2,229	37,396	14,505	23,837	75,738	316.7
1984	2,429	44,472	14,962	25,549	84,983	368.8
1985	1,980	36,834	13,036	21,669	71,539	318.2
1986	964	19,741	8,645	14,001	42,387	191.3

3, PRODUCING WELLS

As of Dec. 31st	Crude Oil			Natural Gas	Total Wells
	Stripper	Other	Total		
1967	376,851	190,018	566,869	121,758	688,627
1968	367,205	181,126	548,331	123,528	671,859
1969	358,650	178,990	537,640	125,020	662,660
1970	359,130	158,047	517,177	118,864	636,041
1971	353,696	158,775	512,471	117,300	629,771
1972	359,471	144,034	503,505	119,167	622,672
1973	355,229	144,739	499,968	123,034	623,022
1974	366,095	128,257	494,352	126,997	621,349
1975	367,872	140,068	507,940	131,086	639,026
1976	365,733	137,535	503,268	137,594	640,862
1977	368,930	139,410	508,340	145,453	653,793
1978	374,635	141,603	516,238	153,655	669,893
1979	386,310	140,545	526,855	165,888	692,743
1980	395,176	148,334	543,510	175,213	718,723
1981	409,539	147,470	557,009	189,609	746,618
1982	416,493	163,649	580,142	203,663	783,805
1983	441,501	161,789	603,290	214,354	817,644
1984	452,543	167,654	620,807	226,077	846,884
1985	458,447	188,179	646,626	245,765	892,391
1986	N/A	N/A	623,404	250,457	873,861

4. DRILLING COSTS & INDICES

Year	Drilling Costs			Cost & Price Indices (1967 = 100)			
	Total (Mill. $)	Per Well ($)	Per Ft. ($)	Oil Machinery	Oil Well Casing	Oil Field Wages	Crude Price
1967	2,299	72,902	15.97	100.0	100.0	100.0	100.0
1968	2,409	81,463	16.83	106.4	101.5	104.3	100.8
1969	2,611	88,554	17.56	112.7	104.5	110.8	105.2
1970	2,579	94,885	18.84	118.7	109.1	117.9	106.1
1971	2,372	94,703	19.03	122.6	120.7	127.7	114.6
1972	2,814	106,424	20.76	127.3	128.4	139.1	113.8
1973	3,075	117,152	22.50	133.2	133.2	147.4	126.0
1974	4,367	138,718	28.93	157.8	170.7	163.1	211.8
1975	6,571	177,793	36.99	196.3	211.5	184.9	245.7
1976	7,462	191,615	40.46	217.7	223.1	203.4	253.6
1977	9,957	229,181	46.82	236.6	244.3	220.3	274.2
1978	13,061	279,950	56.64	261.6	271.6	247.7	300.1
1979	16,079	331,367	67.71	289.7	285.2	270.2	374.5
1980	22,800	367,682	77.03	335.7	326.9	298.5	556.4
1981	36,666	453,691	94.30	401.0	407.6	331.7	803.5
1982	39,428	514,378	108.73	434.5	451.9	363.4	733.4
1983	25,105	371,721	83.34	428.4	406.1	380.9	681.4
1984	25,206	326,463	71.90	424.9	386.0	392.9	669.8
1985	23,697	349,399	75.35	426.2	381.4	405.1	619.4
1986	N/A	N/A	N/A	414.9	355.3	402.9	343.8

5. NEW RESERVES ADDED

Year	Liquid Hydrocarbons (Mill. Bbls.)			Natural Gas (Tcf)	Crude Oil Reserves Per New Oil Well (Bbls.)	Nat. Gas Reserves Per New Gas Well (MMcf)
	Crude Oil	NGL	Total			
1967	2,962	930	3,892	22.0	193,229	6,013
1968	2,455	686	3,141	13.8	171,307	3,993
1969	2,120	281	2,401	8.5	147,550	2,082
1970	12,689	308	12,997	37.6	972,859	9,328
1971	2,318	347	2,665	10.1	194,741	2,536
1972	1,558	238	1,796	9.8	136,224	1,787
1973	2,146	409	2,555	6.5	209,345	932
1974	1,994	620	2,614	8.5	146,145	1,186
1975	1,318	619	1,937	10.8	77,625	1,322
1976	1,085	834	1,919	7.4	61,310	784
1977	1,140	291	1,431	12.3	60,963	1,015
1978	2,583	596	3,179	10.7	135,484	743
1979	1,410	570	1,980	14.5	68,152	956
1980	2,970	844	3,814	16.7	92,466	975
1981	2,570	1,081	3,651	21.5	60,442	1,089
1982	1,382	874	2,256	17.3	35,208	920
1983	2,897	1,405	4,302	14.5	77,468	1,000
1984	3,748	518	4,266	14.4	84,092	958
1985	3,022	1,054	4,076	11.9	80,709	885
1986	N/A	N/A	N/A	N/A	N/A	N/A

6. PROVED RESERVES

As of Dec. 31st:	Liquid Hydrocarbons (Mill. Bbls.)			Natural Gas (Tcf)	Reserve/Production Ratio		
	Crude Oil	NGL	Total		Crude Oil	Total Liquid	Natural Gas
1967	31,377	8,614	39,991	292.9	10.3	10.9	15.9
1968	30,707	8,598	39,305	287.4	9.8	10.3	14.8
1969	29,632	8,143	37,775	275.1	9.3	9.6	13.3
1970	39,001	7,703	46,704	290.8	11.8	11.5	13.3
1971	38,063	7,304	45,367	278.8	11.7	11.3	12.6
1972	36,339	6,787	43,126	266.1	11.1	10.7	11.8
1973	35,300	6,455	41,755	250.0	11.1	10.6	11.1
1974	34,250	6,350	40,600	237.1	11.3	10.8	11.1
1975	32,682	6,268	38,950	228.2	11.3	10.9	11.6
1976	33,502	6,402	39,904	216.0	11.0	11.3	11.1
1977	31,780	5,994	37,774	208.9	11.1	10.6	10.7
1978	31,335	6,772	38,107	200.3	10.4	10.4	10.4
1979	29,810	6,615	36,425	194.9	10.1	9.9	9.8
1980	29,805	6,728	36,533	199.0	10.0	9.9	10.6
1981	29,426	7,068	36,494	201.7	10.0	9.9	10.8
1982	27,858	7,221	35,079	201.5	9.4	9.6	11.5
1983	27,735	7,901	35,636	200.3	9.2	9.5	12.7
1984	28,446	7,643	36,089	197.5	9.4	9.5	11.5
1985	28,416	7,944	36,360	193.4	9.3	9.6	12.1
1986	N/A	N/A	N/A	N/A	N/A	N/A	N/A

7: PETROLEUM PRODUCTION

Year	Crude Oil			NGL	Total Production	Average Crude Oil Per Well	Average Stripper Oil Per Well
	Stripper	Other	Total				
	(Thous. B/D)					(B/D)	
1967	1,369	7,441	8,810	1,409	10,219	15.5	3.6
1968	1,326	7,770	9,096	1,504	10,600	16.6	3.6
1969	1,246	7,992	9,238	1,590	10,828	17.2	3.5
1970	1,209	8,428	9,637	1,660	11,297	18.6	3.4
1971	1,160	8,303	9,463	1,694	11,157	18.5	3.3
1972	1,125	8,316	9,441	1,744	11,185	18.8	3.1
1973	1,057	8,151	9,208	1,738	10,946	18.4	3.0
1974	1,129	7,645	8,774	1,688	10,462	17.7	3.1
1975	1,080	7,295	8,375	1,632	10,007	16.5	2.9
1976	1,072	7,060	8,132	1,604	9,736	16.2	2.9
1977	1,075	7,170	8,245	1,618	9,863	16.2	2.9
1978	1,073	7,634	8,707	1,567	10,274	16.9	2.9
1979	1,081	7,471	8,552	1,583	10,135	16.2	2.8
1980	1,096	7,501	8,597	1,573	10,170	15.8	2.8
1981	1,168	7,404	8,572	1,609	10,181	14.9	2.9
1982	1,211	7,438	8,649	1,550	10,199	14.9	2.9
1983	1,266	7,422	8,688	1,559	10,247	14.4	2.9
1984	1,266	7,613	8,879	1,630	10,509	14.3	2.8
1985	1,249	7,722	8,971	1,609	10,580	13.9	2.7
1986	N/A	N/A	8,668	1,566	10,234	13.9	N/A

8. PETROLEUM CONSUMPTION

Year	Petroleum Demand (Thous. B/D)			% of U.S. Energy Consumption		
	Domestic	Export	Total	Petroleum	Natural Gas	Total
1967	12,560	307	12,867	44.0	31.2	75.2
1968	13,393	231	13,624	44.3	31.5	75.8
1969	14,137	233	14,370	44.2	32.3	76.5
1970	14,697	259	14,956	44.5	32.8	77.3
1971	15,213	224	15,437	45.1	33.1	78.2
1972	16,367	222	16,589	46.3	31.9	78.2
1973	17,308	231	17,539	46.9	30.3	77.2
1974	16,652	221	16,873	46.1	30.0	76.1
1975	16,322	209	16,531	46.4	28.3	74.7
1976	17,461	223	17,684	47.3	27.4	74.7
1977	18,431	243	18,674	48.7	26.1	74.8
1978	18,847	362	19,209	48.6	25.6	74.2
1979	18,516	471	18,987	47.1	26.2	73.3
1980	17,056	544	17,600	45.0	26.8	71.8
1981	16,058	595	16,653	43.2	26.9	70.1
1982	15,296	815	16,111	42.7	26.1	68.8
1983	15,231	739	15,970	42.6	24.6	67.2
1984	15,726	722	16,448	41.9	25.0	66.9
1985	15,726	781	16,507	41.8	24.1	65.9
1986	16,118	782	16,900	43.2	22.2	65.4

9. PETROLEUM SUPPLY

Year	Imports			Other Supply	Total Supply	Imports as % of Supply
	Crude Oil	Refined Products	Total Imports			
	(Thous. B/D)					
1967	1,128	1,409	2,537	293	13,049	19.4
1968	1,291	1,549	2,840	347	13,787	20.6
1969	1,409	1,757	3,166	339	14,333	22.1
1970	1,324	2,095	3,419	355	15,071	22.7
1971	1,680	2,245	3,925	436	15,520	25.3
1972	2,216	2,525	4,741	444	16,370	29.0
1973	3,244	3,012	6,256	485	17,687	35.4
1974	3,477	2,635	6,112	491	17,065	35.8
1975	4,105	1,951	6,056	514	16,577	36.5
1976	5,287	2,026	7,313	591	17,640	41.5
1977	6,594	2,193	8,787	568	19,218	45.7
1978	6,194	2,008	8,202	493	18,969	43.2
1979	6,452	1,937	8,389	560	19,084	44.0
1980	5,219	1,646	6,865	674	17,709	38.8
1981	4,141	1,599	5,740	619	16,540	34.7
1982	3,323	1,625	4,948	529	15,676	31.6
1983	3,096	1,721	4,817	737	15,801	30.5
1984	3,229	2,011	5,240	1,071	16,820	31.2
1985	3,083	1,866	4,949	758	16,287	30.4
1986	4,076	1,929	6,005	816	17,055	35.2

10. IMPORTS BY ORIGIN

Year	OPEC Sources		Arab OPEC		Hemispheres	
	Thous. B/D	% Total Imports	Thous. B/D	% Total Imports	Western	Eastern
					(Thous. B/D)	
1967	1,259	49.6	177	7.0	2,145	392
1968	1,302	45.9	272	9.6	2,264	576
1969	1,336	42.2	276	8.7	2,481	685
1970	1,343	39.3	196	5.7	2,856	563
1971	1,673	42.6	327	8.3	3,077	848
1972	2,063	43.5	530	11.2	3,395	1,346
1973	2,993	47.8	915	14.6	4,003	2,253
1974	3,280	53.7	752	12.3	3,532	2,580
1975	3,601	59.5	1,383	22.8	2,951	3,105
1976	5,066	69.3	2,424	33.2	2,675	4,620
1977	6,193	70.3	3,185	36.2	2,771	6,036
1978	5,751	68.8	2,963	35.4	2,701	5,662
1979	5,637	66.7	3,056	36.1	2,868	5,588
1980	4,300	62.2	2,551	36.9	2,512	4,397
1981	3,323	55.4	1,848	30.8	2,216	3,780
1982	2,146	42.0	854	16.7	2,423	2,690
1983	1,832	36.3	625	12.4	2,702	2,349
1984	2,049	37.7	819	15.1	2,703	2,734
1985	1,830	36.1	472	9.3	2,869	2,198
1986	2,780	45.9	1,155	19.1	2,985	3,068

11. NATURAL GAS

Year	Marketed Production	Imports	Exports	Domestic Supply	End-Use Prices		
					Residential	Industrial	All Uses
	(Bcf)				($/Mcf)		
1967	18,171	564	82	18,653	1.04	.34	.57
1968	19,322	652	94	19,880	1.04	.34	.55
1969	20,698	727	52	21,373	1.05	.35	.57
1970	21,921	821	70	22,672	1.09	.37	.59
1971	22,493	935	80	23,348	1.15	.41	.63
1972	22,532	1,019	78	23,473	1.21	.45	.68
1973	22,648	1,033	77	23,604	1.29	.50	.73
1974	21,601	959	77	22,483	1.43	.67	.89
1975	20,109	953	73	20,989	1.71	.96	1.19
1976	19,952	964	65	20,851	1.98	1.24	1.47
1977	20,025	1,011	56	20,980	2.35	1.50	1.78
1978	19,974	966	53	20,887	2.56	1.70	1.98
1979	20,473	1,253	56	21,670	2.98	1.99	2.34
1980	19,889	985	49	20,825	3.68	2.56	2.91
1981	19,965	904	59	20,810	4.29	3.14	3.51
1982	18,523	933	52	19,404	5.17	3.87	4.32
1983	16,825	920	55	17,690	6.06	4.18	4.82
1984	18,230	843	55	19,018	6.12	4.22	4.85
1985	17,198	949	57	18,090	6.12	3.95	4.72
1986	16,800	650	56	17,394	5.85	3.15	4.05

12. WELLHEAD PRICES

Year	Crude Oil		Natural Gas		Gas Price Equivalent	Composite price	
	Current $	Constant 1986 $	Current $	Constant 1986 $		Current $	Constant 1986 $
	($/Bbl.)		($/Mcf)		($/Bbl.)		
1967	2.92	9.31	.16	.51	.86	1.87	5.96
1968	2.94	8.93	.16	.49	.86	1.87	5.68
1969	3.09	8.89	.17	.49	.92	1.94	5.58
1970	3.18	8.67	.17	.46	.92	1.97	5.37
1971	3.39	8.74	.18	.46	.97	2.07	5.34
1972	3.39	8.35	.19	.47	1.03	2.10	5.17
1973	3.89	9.00	.22	.51	1.19	2.40	5.55
1974	6.87	14.57	.30	.64	1.62	3.95	8.38
1975	7.67	14.81	.45	.87	2.43	4.79	9.25
1976	8.19	14.86	.58	1.05	3.13	5.39	9.78
1977	8.57	14.58	.79	1.34	4.27	6.19	10.53
1978	9.00	14.27	.91	1.44	4.91	6.80	10.78
1979	12.64	18.41	1.18	1.72	6.37	9.21	13.42
1980	21.59	28.84	1.59	2.12	8.59	14.53	19.41
1981	31.77	38.70	1.98	2.41	10.69	20.36	24.80
1982	28.52	32.65	2.46	2.82	13.28	20.59	23.57
1983	26.19	28.86	2.59	2.85	13.99	20.14	22.20
1984	25.88	27.46	2.66	2.82	14.36	20.01	21.23
1985	24.09	24.74	2.51	2.58	13.55	18.89	19.40
1986	12.66	12.66	1.70	1.70	9.18	10.93	10.93

13. PETROLEUM PRODUCT PRICES

Year	Wholesale Prices						Retail Gasoline	
	Gasoline	Kerosene	Distillate	Resid. Fuel	Average 4 Products		Excl. Taxes	Incl. Taxes
	($/Gal.)					($/Bbl.)	($/Gal.)	
1967	.12	.12	.10	.05	.09	3.92	.22	.33
1968	.12	.12	.10	.04	.09	3.84	.22	.33
1969	.12	.12	.10	.04	.09	3.89	.24	.33
1970	.12	.12	.10	.06	.10	4.28	.23	.35
1971	.13	.13	.11	.08	.11	4.59	.24	.35
1972	.13	.13	.11	.08	.11	4.57	.24	.35
1973	.15	.14	.13	.08	.12	5.25	.27	.38
1974	.26	.24	.23	.20	.23	9.86	.40	.52
1975	.30	.27	.26	.22	.27	11.35	.46	.57
1976	.34	.32	.30	.22	.30	12.41	.47	.59
1977	.37	.36	.34	.26	.33	13.95	.51	.62
1978	.39	.37	.36	.23	.34	14.16	.53	.65
1979	.57	.57	.54	.34	.50	20.79	.73	.85
1980	.87	.80	.78	.44	.73	30.56	1.07	1.19
1981	1.02	1.01	.97	.61	.89	37.28	1.20	1.33
1982	.95	.97	.92	.58	.83	34.97	1.11	1.26
1983	.87	.85	.80	.57	.77	32.31	1.03	1.22
1984	.81	.85	.80	.59	.74	31.29	1.00	1.21
1985	.81	.82	.77	.56	.73	30.69	.94	1.16
1986	.48	.50	.45	.36	.44	18.47	.70	.92

14. WELLHEAD VALUE & TAXES

Year	Wellhead Value (Mill. $)			Severance-Production Taxes Paid (Mill. $)	Employment (Thous.)	
	Crude Oil	Natural Gas	Total		Oil/Gas Mining	Total Industry
1967	9,390	2,907	12,297	N/A	276	1,397
1968	9,787	3,092	12,879	585	276	1,422
1969	10,419	3,519	13,938	587	280	1,443
1970	11,185	3,727	14,912	642	270	1,451
1971	11,709	4,049	15,758	689	264	1,448
1972	11,714	4,281	15,995	705	268	1,482
1973	13,074	4,982	18,056	777	274	1,486
1974	22,002	6,480	28,482	1,251	300	1,453
1975	23,445	9,049	32,494	1,602	329	1,522
1976	24,375	11,572	35,947	1,783	346	1,548
1977	25,585	15,820	41,405	1,988	381	1,588
1978	28,604	18,176	46,780	2,180	429	1,645
1979	39,453	24,156	63,609	2,515	474	1,641
1980	67,933	32,086	100,019	4,113	560	1,701
1981	99,396	39,513	138,909	6,103	692	1,867
1982	90,030	45,558	135,588	7,082	708	1,864
1983	83,048	43,569	126,617	6,834	598	1,728
1984	84,102	48,491	132,593	6,726	613	1,754
1985	78,881	43,167	122,048	6,453	585	1,777
1986	40,054	28,560	68,614	N/A	464	1,598

15. FINANCIAL STATISTICS

Year	Rate of Return %		Exploration & Development Outlays (Mill. $)			Wages ($/Hour)	
	Oil & Gas	All Mfg.	Larger Firms	Independents	Total	Oil & Gas	All Mfg.
1967	12.6	11.7	3,212	1,153	4,365	3.25	2.83
1968	12.2	12.1	4,087	1,303	5,390	3.39	3.01
1969	10.9	11.5	3,768	1,482	5,250	3.60	3.19
1970	9.9	9.3	3,119	1,656	4,775	3.83	3.36
1971	9.3	9.7	2,740	1,160	3,900	4.15	3.56
1972	9.6	10.6	4,225	2,255	6,480	4.52	3.82
1973	10.5	13.0	5,275	2,865	8,140	4.79	4.09
1974	14.8	14.9	8,550	3,805	12,355	5.30	4.42
1975	12.9	11.6	6,830	3,420	10,250	6.01	4.83
1976	15.2	13.9	8,646	5,864	14,510	6.61	5.22
1977	14.2	14.2	10,305	6,195	16,500	7.16	5.68
1978	13.8	15.0	11,275	8,025	19,300	8.05	6.17
1979	18.2	16.5	15,000	11,750	26,750	8.78	6.70
1980	18.1	14.1	20,553	15,647	36,200	9.70	7.27
1981	16.4	14.0	29,765	26,710	56,475	10.78	7.99
1982	12.8	9.2	30,000	25,400	55,400	11.81	8.50
1983	10.9	10.5	22,650	18,225	40,875	12.38	8.84
1984	8.7	12.5	22,050	19,400	41,450	12.77	9.18
1985	6.5	10.0	17,000	16,000	33,000	13.31	9.52
1986	N/A	N/A	N/A	N/A	15,000	13.74	9.73

16. GENERAL ECONOMIC DATA

Year	Gross National Product			Producer Price Index	Consumer Price Index	Industrial Production Index
	Current $	Constant 1982 $	Price Deflator			
	(Bill. $)		1982 = 100	1967 = 100		1977 = 100
1967	816.4	2,271.4	35.9	100.0	100.0	73.5
1968	892.7	2,365.6	37.7	102.5	104.2	77.6
1969	963.9	2,423.3	39.8	106.5	109.8	81.2
1970	1,015.5	2,416.2	42.0	110.4	116.3	78.5
1971	1,102.7	2,484.8	44.4	114.0	121.3	79.6
1972	1,212.8	2,608.5	46.5	119.1	125.3	87.3
1973	1,359.3	2,744.1	49.5	134.7	133.1	94.4
1974	1,472.8	2,729.3	54.0	160.1	147.7	93.0
1975	1,598.4	2,695.0	59.3	174.9	161.2	84.8
1976	1,782.8	2,826.7	63.1	183.0	170.5	92.6
1977	1,990.5	2,958.6	67.3	194.2	181.5	100.0
1978	2,249.7	3,115.2	72.2	209.3	195.4	106.5
1979	2,508.2	3,192.4	78.6	235.6	217.4	110.7
1980	2,732.0	3,187.1	85.7	268.8	246.8	108.6
1981	3,052.6	3,248.8	94.0	293.4	272.4	111.0
1982	3,166.0	3,166.0	100.0	299.3	289.1	103.1
1983	3,405.7	3,279.1	103.9	303.1	298.4	109.2
1984	3,765.0	3,489.9	107.9	310.3	311.1	121.4
1985	3,998.1	3,585.2	111.5	308.7	322.2	123.8
1986	4,208.5	3,676.5	114.5	312.1	328.4	125.1

NORTH CENTRAL OIL CORPORATION

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C. A. WATTS
PRESIDENT

COMMITTEE ON
RECEIVED
JUL 27 1987
WAYS AND MEANS

July 22, 1987

The Honorable Dan Rostenkowski
United States House of Representatives
Ways & Means Committee
2111 Rayburn Office Building
Washington, D. C. 20515

Dear Representative Rostenkowski:

In 1985 only 30% of the total amount of oil and oil products consumed in the U.S. was imported. Business was healthy; unemployment was low; the oil industry was strong; and real estate was booming. All of this was occurring while oil prices were over $30 per barrel.

You doubtless hear every day that the oil industry is in a shambles and even though oil prices are increasing, the continuing low oil price and instability in the absence of an oil policy will not permit business, real estate, unemployment and the oil industry to recover.

There is now an opportunity to get this recovery off the ground and going and at the same time help retire the national debt or balance the budget. A semi-variable import fee is the answer. Using a base of $25 per barrel, oil imported at any price would pay a $5 per barrel fixed import fee. If the price plus the fixed import fee of $5 amounts to less than $25, an additonal fee of up to $5 per barrel would be collected from the refiner/importer. This would not be a tax on Mexico, Venezuela, Canada or Saudi Arabia or any other producing country but would rather be a tax or fee paid by the consumers in the U.S. since the refiner/importer would add the tax to the cost of the oil to be imported. Such a fee would raise $12 billion per year as a miminum on current import rates and could raise as much as $24 billion per year if the full $10 fee were collected. U.S. domestic oil prices would rise to meet import prices and the oil industry would go back to work to reduce imports. Also, as prices rise, consumers will re-engage their conservation habits and employment will increase as business improves.

We have seen in the short span of 18 months what the undefended glutting of oil can do to America and the oil industry. Let's build our country up again and prepare it to prevent such a catastrophe in the future. If we don't protect and preserve our markets for ourselves, others will use and abuse them to our detriment. Shame on them the first time, but shame on us if it happens again.

Very truly yours,

CAWatts
C. A. Watts
President & CEO

CAW:pmw

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STATEMENT ON OIL IMPORT FEES — A REVENUE INCREASE OPTION

Submitted By

The Texas Independent Producers and Royalty Owners Association

John E. Watson, President

Before The

Committee on Ways and Means
U. S. House Of Representatives

Washington, D. C.

July 15, 1987

The Texas Independent Producers and Royalty Owners Association (TIPRO) welcomes this opportunity to present its views on the oil import fee concept to the Committee on Ways and Means as an option to increase federal revenue. TIPRO is composed of some 4,500 independent producers and royalty owners who specialize in the search and development of domestic petroleum reserves.

Our purpose in submitting this testimony is to endorse for the record the oil import fee concept as a means of raising revenue for the Federal government along with the concept's more fundamental goal of serving the nation's security objectives. By doing so, TIPRO does not intend to support the contention that more revenue is needed to resolve national budgetary problems, nor does it support increased taxation burdens for the domestic energy industry. Nevertheless, we suggest that if Congress decides in its wisdom that budgetary constraints call for increase in revenue, then an import fee on oil and petroleum products should be seriously considered.

National Security Issue

At the same time, TIPRO agrees with the point of view that oil import fees should be initiated primarily as an instrument of national security; any increase in governmental revenue would be supplemental to that objective. (Excerpts from TIPRO's policy on oil import fees established in August, 1985, are presented in Appendix A to emphasize the Association's position in that regard).

Provided initiation of a fee on imported oil and petroleum products is grounded on findings of necessity due to national security interest, there is an avoidance of trade agreement violations under the General Agreement on Tariffs and Trade (GATT) with other nations. Therefore, Gatt would not authorize counterveiling duties or other trade penalties in retribution, should an import fee on oil and petroleum products be approved.

Recent studies by the Department of Energy, the National Petroleum Council, and the American Petroleum Institute have thoroughly documented the adverse economic situation of the domestic petroleum industry, more especially the independent segment, initiated by the collapse in oil prices in early 1986. Supply manipulation by major OPEC oil source countries in the Mid-East caused the collapse and has resulted in a substantial increase in oil import reliance by the United States. This increase in imports, more than 1,000,000 barrels daily, has come from these same source countries which are located in one of the most serious trouble spots in the world.

Such price manipulation led to two undesirable phenomena in the U.S. marketplace during 1986 and thus far in 1987 — sharp reduction in domestic high cost supply (750,000 b/d) and increase in oil demand (300,000 b/d). All of this change had to be covered by new oil import flow, and total imports were suddenly equivalent to almost 40 percent of domestic U.S. demand. Ironically, imports are at a higher level than in the 1970's when critical Mid-East conditions caused a free world supply crisis leading to curtailments, gasoline lines and energy consumer unrest in the U.S.

Industry experts indicate the data for 1987 will cause further substantial increase in oil imports, again all from the politically sensitive Mid-East. Should this occur and the trend continue in 1988, it is conceivable that total oil imports will exceed 50 percent of domestic demand before 1989. Even conservative estimates indicate this milestone will be reached well before 1995.

The fact that all of these increases in imports have and will have to come from the Mid-East establishes the predicate for a serious national security case now and not at some undetermined future date. Literally every drop of oil required to replace expensive production shut-in by an economically beleagured domestic industry, to substitute for undrilled replacement reserves, and to cover new demand brought on by relaxation in conservation activity or population increase must come from the Mid-East. More than two-thirds of the world's surplus producing capacity is in that problematical area. (See Appendix B.)

Mid-East Supply Problem

It has been alleged that recent crisis conditions in the Mid-East illustrated by the Stark tragedy do not impact adversely on the U.S. energy posture, because we only rely on the Persian Gulf for six or seven percent of our petroleum need. This ignores three significant facts. One, a little over six percent of our demand approximates 1,000,000 barrels daily, which is a lot of oil. Two, the U.S. belongs to the International Energy Agency along with its many allies, some of whom rely on the Perisan Gulf for more than 30 percent of their oil supply. Under terms of the IEA agreement, all member nations must share their oil supply with each other in times of international supply crisis. The U.S. would have to share its current oil import supply and probably its strategic petroleum reserves as well.

Finally, as mentioned previously, all future increase in U.S. demand for oil imports must come primarily from the Mid-East. The current six percent level may virtually double by next year and continue a sharp upward spiral in the future. Already, Saudi Arabia has moved from an also ran status among countries exporting oil to the U.S. to Number One in less than two years.

It is important to note that oil import supply from the Mid-East is not only an insecure supply source but also an expensive one for the American consumer. Ex-Secretary of the Navy John F. Lehman, Jr. dramatized the taxpayers' expense involved recently by stating that approximately $40 billion in Department of Defense funds are expended in the Mid-East area annually. Assuming this expense is primarily incurred to secure Mid-East oil supply for the U.S. and its allies, the actual expense of U.S. oil imports from that region moves from approximately $20 per barrel to $140.

TIPRO firmly believes that an oil import fee system is necessary to reverse the trend of sharp growth in imports by revitalizing development of domestic petroleum. An already seriously weakened domestic producing industry is barely capable of supplying six out of ten barrels used by American consumers. A quick solution is needed to avoid further erosion in this supply ratio, and an oil import fee system would be such a solution. Other remedial proposals, such as revision of tax incentives for exploration and production, while good policy, are too long range in nature to be effective in time.

Dismantling of the domestic industry since 1985 has been too severe for the nation to rely only on long term solutions. In Texas, for example, the drilling rig count fell 54 percent in 1986, while well completions dropped 40 percent. Business failures in the Texas-Oklahoma-Louisiana area increased by 60 percent in that same year.

Nationally, employment in the petroleum industry fell from 700,000 to 400,000, as highly skilled workers were absorbed elsewhere in the economy during the past eighteen months. Equipment shortages are already occuring even at the modest activity levels currently maintained.

TIPRO submits that the growing reliance on imported oil and petroleum products has become a clear and present danger to our national security. Drilling activity must be restored to desired levels quickly before the dismantling process is irreversible. In TIPRO's opinion, only an oil import fee system can accomplish the desired objective.

Import Fee Design

TIPRO does not presume to recommend a specific import fee on oil and products for Committee consideration. The Association supports a variable import fee as the best vehicle for achieving national security objectives. However, we realize that such a fee design would not necessarily provide the best results in terms of revenue to the federal government. Many believe a variable fee system would lead to flat pricing of all oil on the international marketplace within a matter of months. Perhaps a combination of a straight fee and a variable fee would provide the best solution.

For the above reasons, TIPRO strongly recommends that an oil import fee system be considered as the best and only alternative for deriving new federal revenue from the energy industry. In this way, the dual objective of protecting the nation's security and improving its budgetary posture would be well served.

Appendix A

Excerpts From the
Statement on Oil Import Policy
Adopted By
The Texas Independent Producers and Royalty Owners Association
August, 1985

"... The Association makes it clear that this proposal for new energy policy (an oil import fee system) should be grounded in national security objectives and a concern for the destabilization of the economy because of disruption in oil supplies. It should not be looked upon primarily as a revenue-raising device, although that would be a resulting benefit. Justification of such policy, and any fee in connection therewith, should rest on the need to reduce, as much as possible, reliance by our country on imports from unstable foreign countries.

"The President and Congress have indeed set a precedent for protecting national security through certain policies. For example, President Reagan and the Congress have agreed that the United States will not allow critical military equipment, such as naval vessels, to be constructed in foreign countries (10 U.S.C. 7309). It is just as important to our national security to have a secure supply of domestic petroleum production to operate our military equipment and fuel our economy. The Soviet Union leads the world in oil production and is not dependent on imports. Russia will become stronger as the United States becomes more dependent on imported oil.

"Furthermore, crude oil and its products have unique national security status as compared to other items in international trade with the United States. Since the early 1950s, when the security clause amendment to the Reciprocal Trade Act was passed by Congress, oil is the only commodity to have been found to have exceeded a safe ratio between imports into the United States and domestic production. This finding has been made by government officials on four occasions — in 1957, 1959, 1974 and 1978. Following the 1959 finding, crude oil imports were restricted for some 14 years by the Mandatory Oil Imports Program. ..."

Appendix B

THE *REAL* OIL SURPLUS

(1st Half 1986)

Perceived World Oil Surplus Capacity	12.0 MMBBL /Day
Surplus Capacity Located In Persian Gulf Area	- 8.6 MMBBL /Day*
Remainder	3.4 MMBBL /Day

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*71.7% of the world total.

Source: Hydrocarbon Consultants, Inc.

MOTOR FUELS EXCISE TAXES

AMERICAN ASSOCIATION OF STATE HIGHWAY
AND TRANSPORTATION OFFICIALS

JOHN R. TABB, President
Director
Mississippi State
Highway Department

FRANCIS B. FRANCOIS
Executive Director

STATEMENT SUBMITTED TO THE
HOUSE COMMITTEE ON WAYS AND MEANS
CONCERNING
OPTIONS TO RAISE REVENUES IN ORDER TO MEET RECONCILIATION INSTRUCTIONS
ON BEHALF OF
THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS
BY
FRANCIS B. FRANCOIS, EXECUTIVE DIRECTOR

July 10, 1987

Mr. Chairman, my name is Francis B. Francois, and I am Executive Director of the American Association of State Highway and Transportation Officials, on behalf of which this statement is submitted for the record in your hearing on options to raise revenues in order to meet reconciliation instructions. The Association is comprised of the departments of highways and transportation in the 50 states, the District of Columbia and Puerto Rico.

The Association has become aware of proposals to increase the rate of the tax on motor fuels, with the intent to utilize the revenue for deficit reduction purposes rather than to meet highway needs. The member departments of AASHTO are opposed to such a tax increase, as was described in testimony given July 1, 1987 to the House Subcommittee on Surface Transportation by AASHTO President John R. Tabb, at the request of Chairman Glenn Anderson. That testimony in part read as follows:

> "The gallonage taxation of motor fuels was conceived by the states early in this century, as an efficient means of taxing vehicles in proportion to their usage of our highways. It is, at both the federal and state levels, an outstanding example of a user fee, one that is paid in direct proportion to the mileage driven. For decades the motor fuel tax has been the principal funding device utilized by most states to finance the construction, maintenance and operation of the highways used by the vehicles and their drivers who pay the tax, and has relieved non-drivers of the burden of supporting highways they do not use. Viewed in this manner, it is clear that the motor fuel tax as now utilized is fair to everyone, and we believe it should remain a tax dedicated only to transportation purposes.
>
> "If the proposal now under consideration in the Congress to use the motor fuel tax as a mechanism to fund the deficit is adopted, the basic concept of the motor fuel tax as being a user fee to support transportation will be violated. This will in turn damage the traditional and well understood linkage in the public's mind between motor fuel taxes, the number of miles driven, and the funding of our nation's highways. Once that linkage is broken here at the federal level, we believe that there will follow in the states a similar unravelling of the basic funding system for highways that has served our nation extremely well for many decades, at all levels of government. We believe that result must be avoided, and therefore strongly oppose using motor fuel taxes for deficit reduction purposes.
>
> "We also oppose increasing motor fuel taxes for deficit reduction purposes for other reasons, including the following:

- The motor fuel tax is paid by Americans in direct proportion to the miles they drive, which makes it a fair tax when the revenue is utilized for highway purposes. But why should the number of miles driven by an American determine his or her contribution toward reduction of the federal deficit? It is a fact that rural Americans, and Americans living in the large states, drive more miles than Americans living in urban areas or the smaller states; accordingly, if the motor fuel tax is utilized for deficit reduction, those Americans living in large states or rural areas will bear a disproportionate, and unfair, share of the deficit reduction burden.

- The motor fuel tax is the basic funding mechanism utilized by the states for highway and transportation finance, where there is great need for revenue to assure a sound transportation system. The ability of state legislatures to increase motor fuel taxes is affected by the total tax placed on a gallon of fuel, both federal and state. When the federal tax is at current levels, and the proceeds are all dedicated to the

  Highway Trust Fund, it has been demonstrated that state legislatures and the citizens they represent can accept higher state legislatures and the citizens they represent can accept higher state taxation to meet needs. If the federal fuel tax is doubled or tripled, as some propose, and the revenues are used for other than transportation purposes, this will severely damage the motor fuel tax as a funding mechanism for the state. The end result, we believe, will be severe damage to the nation's transportation system, and our economy.

". . . we cannot too strongly emphasize our opposition to proposals to increase motor fuel taxes for deficit reduction purposes, or any other purpose than utilization of the revenues to meet transportation needs. We believe that motor fuel taxes viewed as user fees have served us well, and we see no valid reason to destroy a funding mechanism that functions effectively and fairly at both the federal and state levels.

"The use of gallonage taxes on motor fuels, at the state and federal levels, has served this nation well and has provided us with a highway system unequaled in the world. This user fee-based financial device should not now be dismantled by imposing increased taxes for non-transportation, deficit reduction purposes, especially in view of the great transportation needs we face in coming years across the nation."

With regard to what proposals the Association might have for raising revenue, we have established policy that calls for increased efforts to enforce collection of motor fuel taxes. We believe that providing the Treasury Department with increased funding for enforcement of the current federal motor fuel tax would yield several times over in new revenue, and at the same time correct an abusive situation that is simply unfair to other highway users and the American citizen who pays his or her taxes. Indications are that the equivalent of a one to two cent increase in motor fuel taxes could be obtained each year simply by putting the gasoline and diesel fuel tax cheaters out of business, all without imposing any additional burden on the motoring public. With respect to diesel fuel, a change in how it is collected to sharply reduce the number of collection points would also help secure more effective and efficient enforcement.

Another effective revenue measure would be to eliminate the current six cents per gallon exemption for gasohol, which is now draining away hundreds of millions of dollars each year from the Highway Trust Fund and creating a sharp inequity among highway users between those who burn gasohol and those who don't.

These two actions in the motor fuel area will not of course solve the deficit problem, but they would be of substantial help. Beyond that, they would be fair to the highway users of the nation, which today includes nearly everyone.

We trust that these views of the Association will be of help to the Ways and Means Committee, and we will be pleased to provide any additional comments or information that may be requested.

Statement by

Daniel J. Hanson, Sr.

President

American Road & Transportation Builders Association

Mr. Chairman and members of the committee, I am Daniel J. Hanson, Sr., president of the American Road & Transportation Builders Association. We appreciate this opportunity to testify in support of deficit reduction and for several proposals currently being considered by the Ways and Means Committee to achieve the $19.3 billion tax package directed by the recently passed FY 1988 budget resolution.

ARTBA is a Washington, D.C., based national federation of transportation construction interests. ARTBA's over 4,000 members include contractors, transportation safety industry representatives, equipment manufacturers and material suppliers, transportation planning and design firms, federal, state, and local public transportation officials, and educators involved in transportation and civil engineering.

Mr. Chairman, ARTBA strongly supports the position that the deficit must be brought under control. Members of the association also believe that no one industry or group of people should be singled out in achieving deficit reduction and, ultimately, the balanced budget.

The transportation construction industry believes that there are current methods of raising additional available revenue that they could support. Current exemptions authorized in the Highway Trust Fund and antiquated collection methods deprive the Highway Trust Fund of significant dollars.

If these two problems were corrected, the industry estimates that as much as a billion dollars in additional revenue could be collected annually. While this is only a small amount, when compared with the total $19.3 billion that must be generated, it is a step in the right direction and one which ARTBA's members could support.

ARTBA strongly believes that if Congress is looking for additional revenue, it should start by immediately ending the federal subsidy for gasohol. Each gallon of gasohol sold is exempt from six cents of the current nine-cent-per-gallon federal excise on motor fuels. This subsidy costs the federal government approximately $500 million annually in lost tax revenue.

The incentives for the use of alcohol fuels are extremely inefficient because two separate tax incentives are provided by the Congress. It is unnecessary to have both a 60-cent-per-gallon alcohols credit and a 6-cent-per-gallon exemption from the federal gasoline excise tax. The excise tax exemption is contrary to the objective of having the users pay for the construction of roads over which they will travel. In other words, certain groups of motorists are getting a free ride on our highways.

In addition, it is the belief of ARTBA that a subsidy is no longer necessary for the alcohol fuels industry. Successful ethanol-producing technologies are now well known and any future changes would simply be refinements to existing technology.

Secondly, gasoline and diesel fuel tax evasion is a demonstrated, very serious problem. This was recognized last year by the 99th Congress. Increasing these taxes even higher, while solutions to the gas tax evasion situation are still being investigated, would only give tax evaders further incentive to break the law and illegally increase their profits.

A new procedure for the collection of motor fuels excise taxes which brings the collection back toward the refining or importation of motor fuels would certainly discourage tax avoidance schemes. Imposition of the tax at the earliest possible stage of marketing reduces the opportunity for evasion of the payment of the federal motor fuels tax. In addition, administration of tax collections will be more efficient if fewer organizations are involved in paying the tax, thus maximizing revenue.

A recent survey indicated that only 30 percent of the American people believe that an increase in the gasoline tax should be the mechanism for deficit reduction. Increasing gasoline taxes at the federal level for non-highway purposes will adversely affect the state of our nation's roads in the view of ARTBA members.

By causing a decrease in consumption, the increased tax would actually lower overall receipts to the Highway Trust Fund. If the federal excise taxes on gasoline and diesel fuel are raised now, it is unlikely that these excises can be raised again in the near future for specific highway purposes, even though the nation has overwhelming surface transportation needs.

Mr. Chairman and members of the Committee, that concludes our testimony on this important subject. The American Road & Transportation Builders Association stands ready to work with the Committee to address this difficult problem of deficit reduction. We will be happy to provide any information which the Committee may need regarding the economic impact of various revenue-increasing options on the transportation construction industry.

ANDREWS OIL CO.
530 Oak St. - Box 542
Mt. Carmel, IL 62863
Phone: 618/263-3896

July 10, 1987

Congressman Dan Rostenkowski
Chairman
Committee on Ways and Means
2111 RHOB
Washington, D.C. 20515

Dear Congressman,

We are writing to you in reference to legislation for federal excise taxes to be paid at the refinery gate. What is this going to accomplish?

We are a small distributor in southern Illinois, and have a diversified list of customers. Paying the excise tax at the refinery gate only puts undue paperwork and less cash flow for the small business. Also, not depositing the tax with our local bank makes our local community suffer. Granted a few tax evaders may be caught, but in the long run it will put undue hardship on those who are honestly paying the tax. Also, there will be confusion of what excise taxes are to be paid, as there are many different amounts. i.e. (gasoline .091, gasahol .031, diesel fuel .151) The only way this can be handled is with refunds, so there is more paper work, and our money is used by the government for an extra three months.

It looks like to us, that the majority of honest taxpayers are being penalized for a handful of those evading taxes. We truly feel that this sort of legislation is unfair, and totally unnecessary. Please vote no when this legislation comes up for passage.

Sincerely,
Rick R Andrews
Rick Andrews
Andrews Oil Co.

BARBER-GREENE COMPANY 400 NORTH HIGHLAND AVENUE / AURORA, ILLINOIS U.S.A. 60507
AN ASTEC COMPANY
Telephone: 312 859-2200

W. E. PUTZ
VICE PRESIDENT—PRODUCT SUPPORT

July 28, 1987

The Honorable Daniel J. Rostenkowski
Chairman, Ways & Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Re: Proposed Excise Tax on Motor Fuel

Dear Mr. Rostenkowski:

Proposals currently being offered in the Congress to increase revenues through an excise tax on motor fuel are causing widespread concern throughout the construction industry. Since Illinois-based manufacturers make our state the largest employer in the construction equipment industry, it is important that you and your colleagues have a real appreciation for our concern.

It is not my intent to debate the need to balance the budget or increase revenues. My goal is to simply highlight the remarkable effectiveness of the Highway Trust Fund and the user fee concept that has made the highway program uniquely successful since the 1950's. The key reasons, we believe, are:

1. The users of the system, motorists, bus passengers and consumers of freight carried by truck, pay the bill. What could be fairer than that?

2. Through the mechanism of the Highway Trust Fund, revenues and expenditures are clearly and precisely related. There is no ambiguity over the transfer of funds into, or out of, general revenues.

3. As a general revenue measure, the gas tax is unfair in two very important ways.

    a. Tax payers earning less than $5,000 a year would pay 1.6% of their income for each 1¢ per gallon increase, compared to .22% for those with incomes of $50,000 or more.

[redacted]

The Honorable Daniel J. Rostenkowski
July 28, 1987
Page 2

b. Motorists in rural areas would pay substantially more than those in urban states. This ratio exceeds two-to-one comparing residents of Oklahoma to New York state.

4. Of intense concern to those of us associated with the efficiency and economic benefits of our highway system is the fact that future funding for highway construction and maintenance would be eroded.

   As we look at the ongoing maintenance needs, as well as the crucial requirement to reduce congestion in urban areas such as Chicago and its suburbs, this becomes a vital issue.

   As you undoubtedly know, over 37 million vehicles per year pass through the Oak Brook toll plaza on I-5 just west of Chicago. Since the toll road was built connecting with the Eisenhower Expressway, commuting times from Aurora, Illinois have increased over 60%. This translates into almost six man-weeks per year of lost time for each commuter involved! Failure to address this problem represents enormous economic waste.

5. Many studies have emphasized the negative impact on the employment in the construction industry. With such industry leaders as Caterpillar Tractor, John Deere, Dresser Industries, Barber-Greene Company, Hyster, Blaw-Knox and many other directly dependent upon construction generally and highways specifically, this should be of highest priority to elected officials from the state of Illinois.

With total sincerity, we ask that these factors be taken into consideration before irreparable damage is done to the economic well-being of our industry and residents of the state of Illinois. We fervently hope that House Resolution 225 successfully meets this threat.

We look forward to your reconsideration of these matters because of your stature and influence in the deliberations before you.

Very truly yours,

W. E. Putz

msf

Better Roads & Transportation Council

408 Vaughn Building • Austin, Texas 78701 • (512) 478-9351

Officers

ROBERT M. JOHNSON
Chairman
Minnesota

JACK FISH
Vice Chairman
Kentucky

EUGENE W. ROBBINS
Secretary-Treasurer
Texas

August 19, 1987

MEMBERS,
WAYS AND MEANS COMMITTEE
U. S. HOUSE OF REPRESENTATIVES:

The attached resolution opposing an increase in the federal motor fuel tax to support general revenue spending was adopted by the Better Roads & Transportation Council at its mid-year meeting August 5, 1987, at Bretton Woods, New Hampshire.

BR&TC is a national organization representing state good roads and transportation betterment organizations in each of the 50 states.

We are sure constituents in your district will agree with us that increasing the federal motor fuel tax to pay for general revenue spending is a bad idea.

Sincerely,

Eugene W. Robbins

Eugene W. Robbins

EWR:fb
Encl.
cc: Robert Johnson
Jack Fish
Robert Floyd
Distribution List

A National Affiliation of State Good Roads and Transportation Betterment Organizations.

1. Highway User Fees for General Revenue Spending

Congress has adopted a federal budget calling for $18 billion in new taxes. The new revenue would reduce the deficit to $108 billion, the Gramm-Rudman target.

An excise tax on motor fuel (gasoline and diesel) is being considered by the House Ways & Means Committee as a way to raise at least half of the new revenue. Bills have been introduced proposing from 9¢ to 30¢ increase in the federal gas tax.

An additional nine cent per gallon federal excise tax on motor fuel would bring in about $9 billion a year. This, of course, would be on top of the existing nine cent per gallon federal gas tax which goes to the Federal Highway Trust Fund to be used to improve the nation's roads.

At first, it may appear that there are merits to this plan. However, there are serious flaws in utilizing a user fee for general revenue purposes.

The biggest flaw in the plan is that not all Americans use the same amount of gasoline. The per capita consumption of gasoline varies from a low of 268 gallons a year in the District of Columbia to a high of 603 gallons in Wyoming.

Just to show how unfair such a tax would be, let's assume Congress imposes a ten cent a gallon tax for budget deficit reduction. Each man, woman, and child in Wyoming would pay $60.30 a year. Each person in the District of Columbia would pay only $26.80. A family of three in Wyoming would pay $180.90 and their counterparts in Washington, D.C. would pay only $80.40.

Texas ranks fourth in per capita consumption of gasoline with 516 gallons a year. If Congress adopts the plan, a family of three in Texas would pay $154.80, while their counterparts in New York would pay $89.10.

There are some other good reasons why a federal motor fuel tax to raise general renvenue is a bad idea.

Traditionally, the motor fuel tax is a "user fee." People who benefit most from highways pay to build and maintain them through the motor fuel tax. As a user fee, the gas tax is a fair tax. Those who use the roads a lot, pay a lot. Those who use them little, pay little.

As a general revenue measure, the gas tax is unfair. In addition to the inequities caused by differences in gasoline consumption, the gas tax is regressive.

Finally, tapping the gas tax for revenue to underwrite general revenue spending would destroy the "user fee" principle. Increases in state or federal gas taxes for highway construction and maintenance would be preempted.

The Better Roads & Transportation Council recognizes the importance of reducing the U. S. deficit and the difficulty of the task faced by Congress. However, BR&TC strongly opposes an excise tax on motor fuel for general revenue purposes as inequitable, regressive, and a threat to future highway funding.

Adopted
BR&TC MidYear Meeting
August 5, 1987

Standard Petroleum Products ☆ Wix Filters ☆ Quaker State Oil

BROWN OIL CO.

RURAL ROUTE 1 — BOX 154
BLUE MOUND, ILLINOIS 62513
PHONE 692-2234

July 13, 1987

Congressman Dan Rostenkowski
Chairman
Committee on Ways and Means
2111 RHOB
Washington, DC 20515

Dear Congressman Rostenkowski:

I am writing to inform you that I am very much against the idea of petroleum marketers having to pay the federal excise tax to the refinery.

This action will be detrimental to the small marketer's cash flow and will make it difficult to grow and produce a profit. We do not need regulations which make it more difficult for the small businessman and easier for the giant oil companies.

If this regulation is to prevent tax cheating why not have each state be responsible for auditing the federal excise tax collection. Also, why should the small, honest marketer be penalized for the actions of a few tax cheaters.

I hope you can do something to change this regulation which is to take affect January 1, 1988.

Thank you,

C. David Brown

C. David Brown
Brown Oil Company

CONSOLIDATED FREIGHTWAYS, INC. The CF Company

GENE T. WEST
Senior Vice President

July 22, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
2111 Rayburn Bldg.
Washington, D.C. 20515

Dear Mr. Chairman:

House Resolution 225 has been introduced by Congressman Glenn Anderson (D-CA), Chairman of the House Public Works Surface Transportation Subcommittee. This Resolution expresses the sense of the House of Representatives that federal excise taxes on gasoline and diesel fuel shall not be increased to reduce the federal deficit.

Resolution 225 is currently co-sponsored by Public Works Chairman Jim Howard (D-NJ), ranking minority member John Paul Hammerschmidt (R-AR) and Bud Shuster (R-PA). The Resolution points out that these taxes are regressive, will increase unemployment, reduce personal savings, and increase the Consumer Price Index. Additionally, the use of such taxes to reduce the deficit places an unfair burden on the highway user vis-a-vis the populace at large, and certainly violates the long-standing concept of a Highway Trust Fund.

I urge you to oppose any effort to impose additional excise taxes on gasoline and diesel fuel for deficit reduction purposes.

Respectfully,

Gene T. West
Gene T. West

GTW:ds

cc: Congressmen:
Glenn Anderson
James Howard
Bud Shuster
John Hammerschmidt

Note: This letter sent to all members of House Ways & Means

175 LINFIELD DRIVE, MENLO PARK, CA 94025 (415) 326-1700

STATEMENT OF

KAYE N. HENDERSON, SECRETARY

FLORIDA DEPARTMENT OF TRANSPORTATION

INTRODUCTION

Mr. Chairman, members of the committee, I am Kaye Henderson, Secretary of Transportation for the State of Florida. I am pleased to have the opportunity to appear before you today and discuss revenue raising options now under consideration by the committee.

As the chief transportation official for the State of Florida, I plan to limit my remarks to our position on raising the federal tax on gasoline for deficit reduction purposes. I must say up front that we strongly oppose a gas tax increase to support general spending as it has serious implications for tranpsortation trust fund financing, both nationally and at the state level.

BACKGROUND

As you well know, Mr. Chairman, the user fee principle and trust fund concept has a 30-year history at the federal level, beginning with the creation of the Highway Trust Fund in the mid 50's. Over the last three decades, user fees have been used successfully to ensure a dedicated source of revenue for transportation improvements. Today, all major modes of transportation enjoy user fee financing at the federal level, including highways, mass transit, and aviation.

The State of Florida has a similar basis for financing improvements to the transportation system over which it has jurisdiction. The state's Transportation Trust Fund has been in place since 1931. At that time, it was referred to as the State Road License Fund. Today, it continues to serve as the depository for transportation user-fee revenues, the most significant of which are motor fuel tax revenues.

Despite this well-developed tax and finance structure in our state, we still expect revenues to fall short of transportation needs by some $16 billion over the next 10 years. During this timeframe, transportation needs for the state's transportation system have been estimated at $30 billion while existing state revenue sources are expected to provide only $14 billion. Thus, we face a significant revenue shortfall at the state level and must protect future revenue raising options.

Likewise, local governments in Florida may impose local option fuel taxes. These have been broadly applied in our state. Over three-fourths of our 67 counties have imposed local option fuel taxes with revenues dedicated to financing local transportation improvements.

IMPACTS

All of the major arguments against a gas tax increase for deficit reduction purposes have been previously articulated by others. In fact, since the issue first surfaced and began to receive serious consideration, virtually every major organization comprising the highway user community is now on record opposing the tax increase. These organizations include the National Conference of State Legislatures, the National Association of Counties, the National League of Cities, the Highway Users Federation, the National Governors' Association, and the American Association of State Highway and Transportation Officials.

Raising the federal tax on gasoline to reduce the deficit will mark the beginning of the end for transportation trust fund financing. It will set a precedent of trust fund revenue diversion which, we believe, will be continued in the future. It will undermine the user fee principle that has worked so well for the last 30 years. And in the process, it will disproportionately burden a discrete segment of Americans with deficit reduction -- a burden which should be shared by all Americans.

Higher gasoline prices will reduce travel and, ultimately, reduce fuel consumption, having major implications for revenue generation from existing fuel taxes and for the tourist industry. Regarding revenue implications, the Congressional Budget Office estimates a $3.4 billion reduction in existing gasoline tax revenue over the next five years to the federal Highway Trust Fund due to reduced fuel consumption. Similarly, the National Association of State Budget Officers estimates a loss of some $360 million in state and county gasoline tax revenues for the State of Florida over the same timeframe. Both the federal and state gas tax revenue impact estimates assume a 12 cents per gallon increase in the federal gasoline tax which, I understand, is among the options under consideration by the committee.

With respect to the impact on tourism, this is probably more critical to states like Florida. For example, some 16 million tourists visited Florida by car in 1985 and each of these visitors contributed to the state's economic health.

CONCLUSION

Mr. Chairman, before I conclude, allow me to briefly summarize our position. The State of Florida strongly opposes raising the federal tax on gasoline for deficit reduction purposes as the impacts of doing so are both numerous and severe:

-- it will preempt future revenue raising options at the state and local level;

-- it will mark the beginning of the end of transportation trust fund financing;

-- it will severely undermine the user fee principle;

-- it will disproportionately burden the highway user community with deficit reduction;

-- it will adversely impact revenue collections from existing taxes; and

-- finally, it will negatively affect tourism.

We believe, Mr. Chairman, the impacts are clear. And we are hopeful the hearing record will show that raising the federal tax on gasoline for deficit reduction purposes is neither appropriate nor is it sound tax policy, given the regressive nature of motor fuel taxes.

This concludes my remarks and I, again, thank you for the opportunity to appear before you today.

Marathon
Oil Company

Findlay, Ohio 45840
Telephone 419/422-2121

July 17, 1987

The Honorable Thomas J. Downey
2232 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Downey:

Media reports of the July 9 hearing on revenue options state that you support moving the incidence of gasoline tax upstream to the refinery gate, that such a change is "backed by New York State officials..." and that the state has decided to move the collection point to the refinery gate as well. The tax cheating in New York is not practiced by refiners and there are in fact no longer any refineries in New York. Mr. Chu testified last summer before the Oversight Subcommittee that New York's partial success in curbing evasion has been accomplished only through the cooperation of the major petroleum refining companies.

The motor fuels distribution system which our industry has built moves gasoline from U.S. refineries to marketing "products distribution" terminals in consumer markets in very large bulk quantities via pipeline or marine barge. Those bulk quantities are owned by refiners and/or large independent petroleum marketers and are not available for retail marketing until they are removed from a terminal in truckload liftings. Our accounting systems are geared to reporting sales of gasoline from those marketing terminals and accruing or billing state and federal motor fuel taxes at that point, a key element underlying the 1986 TRA provision that tax be generally collected there and a critical pre-requisite for IRS and state data exchange in their joint efforts to eliminate tax evasion.

I submit that New York's untaxed gasoline emanates principally from offshore or from neighboring states and not from major refiner terminals. Taxing gasoline at the refinery would add to our product distribution cost since our net gallons available for sale shrink in volume as they move from refinery to terminal and create a cost advantage for those marketers in closest proximity to a refinery.

I urge your consideration in letting the new terminal rack collection system work before resorting to a refinery gate tax. I would be pleased to discuss this issue further with you or with New York State officials to ensure a mutual understanding of the excise tax collection system and its potential loopholes.

Sincerely yours,

Duane A. Beamer
Manager, Tax Legislation & Planning

Statement for the Record
submitted to the
Committee on Ways and Means
U.S. House of Representatives

July 13, 1987

Mr. Chairman and Members of the Committee on Ways and Means:

We appreciate the opportunity to submit a statement for the record regarding various proposals to raise the Federal tax on gasoline and diesel fuel.

This statement reflects the views of the members of the Maryland Independent Truckers and Drivers Association, which has its headquarters in Baltimore, Md. While most of its members reside in Maryland, the Association has grown in size and diversity of membership to include truckers from 22 States and the District of Columbia. The Association members are engaged in a number of types of hauling and many of the members travel the 48 contiguous States.

We recognize the need to reduce the Federal budget deficit and we support rational methods of cutting spending. We cannot, however, support an increase in the tax on motor fuel. Such a tax would, in our opinion, be regressive and highly unfair.

An increase in the Federal fuel tax would be an especially difficult burden for independent truckers to bear. Many would, in fact, not be able to pay additional taxes because they are in such a serious economic bind as the result of depressed rates and rising operating costs. We are already feeling the effects of increases of State fuel taxes. This coupled with the rising price of diesel fuel makes it even more difficult for our part of the trucking industry to survive.

The trucking industry seems to be fair game when revenue raising is proposed. But one fact which seems to escape the consideration is that we truckers pay these taxes every five miles. The average motorist who gets 30 or so miles to the gallon pays the tax much less frequently than the trucker who averages five miles to the gallon of fuel. Each time we independents are hit with another increase in operating expenses, our fragile status becomes even more endangered. And as you know, our economic situation has a definite effect on our ability to maintain and operate safe vehicles. Any boost in the Federal fuel tax would be a serious blow to the trucking industry.

We have still another point of opposition on using a Federal fuel tax increase to reduce the deficit. In our opinion, any Federal fuel tax collected is to go to the Highway Trust Fund and to be used to build and maintain the Nation's highways. We do not want to see that changed.

Respectfully submitted,

Rita Bontz

Rita Bontz
President, Maryland Independent
Truckers and Drivers Association

McKIRGAN BROS. OIL CO.

Route 1 - Box 15
PLANO, ILLINOIS 60545

July 13, 1987

Congressman Dan Rostenkowski
Chairman
Committee on Ways and Means
2111 RHOB
Washington, DC 20515

Subject : Tax Reform Act 1986 - Federal Excise Tax

Dear Sir :

Being that I am a concerned jobber of petroleum products, I am writing in regards to the above subject concerning Federal Excise Tax to be paid to the refinery when purchasing gas.

I am very opposed to the new Tax Reform Act of 1986. I feel very strongly that we jobbers should NOT have to pay the Federal Excise Tax when purchasing the product from the refinery. If this goes into effect, it would be very detrimental to my business. I don't believe I should have my money tied up in Excise Tax when I haven't collected it until my customers pay their bill. Most of my customers do not pay cash on the spot, so I have everything tied up in accouts receivable.

I would be very much in favor of a change in the Technical Corrections Bill of 1987 so that we jobbers do not have to pay the excise tax when buying gas from the refinery.

Thank you for your attention to this situation.

Sincerely,

Randy McKirgan

Randy McKirgan
McKirgan Bros. Oil Company

RM/lc

1621 Ravenswood Way
Cherry Hill, N.J. 08003
July 22, 1987

Honorable Dan Rostenkowski
House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

Both my wife and I are opposed to any proposals that would add a tax on motor fuel to reduce the federal budget. Taxes on motor fuel are designated to help the nation's highways as you know. An added tax on motor fuel would only place an added burden on the non-wealthy people of our nation who already are heavily burdened.

We request that as Chairman of the Ways and Means committee you reject any such proposal to add a tax on Motor fuel to reduce the federal deficit. Please let us have your thoughts on this matter. Thank you for your consideration.

Sincerely yours,
Michael Melockoff
Evelyn R Melockoff

National Association of Fleet Administrators, Inc.
NAFA
120 Wood Avenue South, Iselin, New Jersey 08830 (201) 494-8100

Before the
U.S. House of Representatives
Committee on Ways and Means

Statement of the
NATIONAL ASSOCIATION OF FLEET ADMINISTRATORS, INC.

by
FRANK W. KRAUS
President

The Members of the National Association of Fleet Administrators, who manage some 2.7 million automobiles and light trucks in the United States and Canada, are concerned about the substantial economic harm which may result from an increase in the federal tax on gasoline.

The Association's Members manage automotive fleets for corporations, utilities and government agencies. Most of the vehicles are automobiles, minivans, vans and light trucks, utilized by salespersons and service providers in conducting the basic work of a business or agency. Today, I will present some observations, representative of the views of many fleet managers, and some statistical data developed by our Association's staff to bring some serious concerns to your attention.

1. Fuel Costs are the major operating expense for business fleets.

Composite fleet expense comparisons conducted by the National Association of Fleet Administrators indicate that fuel costs represented 70.4% of operating expenses for fleets reporting full-year 1985 statistics in a July, 1986 study. The impact of fuel costs is not surprising, in light of the high mileage usually generated by the nation's sales and service fleets. In calendar 1985, U.S. commercial fleets reporting to NAFA indicated that the average fleet automobile travelled 24,250 miles per year. And because those fleets reported that they held such vehicles for an average of only 30.2 months, repairs and similar expenses were held to a small percentage of actual operating costs.

2. A 10 cent per gallon increase in federal gasoline tax would add approximately $121.25 additional operating expense for every car, every year used in a U.S. commercial fleet.

NAFA's research indicates that the average, mid-sized automobile used in a U.S. business fleet achieves approximately 20 miles per gallon. In 1985 (the last year for which complete survey analysis is available), the average fleet car travelling 24,250 miles in a year would utilize approximately 1,212.5 gallons of gas. If the Federal tax is increased 10 cents per gallon, the direct, additional expense to each business fleet would approximate $121.25 per car each year. For a typical 1,000 vehicle commercial fleet, this increase would approximate $121,250 per year.

3. Commercial automobiles already pay substantial gasoline taxes to federal and state governments each year.

Based on the mileage estimates above, a typical commercial automobile already pays approximately $109.13 each year in federal gasoline taxes (at the current nine cents per gallon) and $157.63 each year in state gasoline levies (averaging 13 cents per gallon in 1986).

If the federal tax were increased to 10 cents per gallon, the total cost per car, per year to a business fleet automobile in state and federal gasoline taxes alone would be $388.01. Even at a five cent increase in federal gasoline taxes, the total per car, per year would be $327.39.

And, further expense will be generated if more states enact higher state-level taxes on gasoline, in accordance with bills now pending in state legislatures.

4. This artifical increase in the cost of gasoline adds to the impact of rising gasoline prices.

A variety of market factors have brought hefty increases in gasoline prices in the past year alone. In many parts of the country, the increase is near 30 cents per gallon, as $1.00 per gallon for regular, unleaded gasoline has again become a reality. The impact of rising gasoline prices is hitting corporate fleets with dramatic cost increases -- and a further increase caused by higher per-gallon taxes would be especially damaging.

5. A gasoline tax increase would arrive at a time when business fleets have already been hit especially hard by other tax law changes.

Business fleets are still trying to adjust to higher expenses caused by the loss of the investment tax credit (ITC) on vehicle purchases and the substantial loss in depreciation caused by changes in federal tax policy. The combined impact of higher gasoline costs, higher gasoline tax, loss of the investment tax credit, and reduction in depreciation can severely hamper sound financial management of business fleets.

6. Higher operating costs may cause some business to reduce fleet expenses by eliminating sales or service jobs or delaying the purchase of new vehicles.

Although many corporations have not yet felt the full impact of the tax law changes and higher gasoline prices, NAFA is already detecting apparent shifts in company policy which could have a substantial impact on the nation's economy. NAFA's annual surveys of vehicle cycling indicate that, in 1986, companies were already keeping cars longer than in 1985.... which may result in softer sales of new cars to corporate fleets with subsequent, serious economic harm. (NAFA's survey of 1985 vehicle cycling indicated that the average U.S. commercial fleet kept the average car in service for 30.2 months. NAFA's latest survey of replacement policies, however, indicates that the average fleet plans to keep automobiles for 37 months in 1986 and for 40 months in 1987.) Because fleet sales comprise some 20 percent of all new vehicle sales by U.S. manufacturers, the harm can be very great.

**THE
NATIONAL
INDUSTRIAL
TRANSPORTATION
LEAGUE**

1090 Vermont Avenue, NW
Suite 410
Washington, DC 20005-4905
(202) 842-3870

Office of the Executive Vice President

PRESIDENT
Joseph S. Dewey
Director of Transportation
Kerr-McGee Corporation
P.O. Box 25861
Oklahoma City, OK 73125

VICE PRESIDENT
John W. Lind
Director-Corporate Transportation
and Distribution
Corning Glass Works
Houghton Park A-3
Corning, NY 14831

TREASURER
Stanton P. Sender
Assistant General Counsel
Transportation and
Telecommunications
Sears, Roebuck and Company
633 Pennsylvania Avenue, NW
Suite 600
Washington, DC 20004

**CHAIRMAN
BOARD OF DIRECTORS**
James E. Curtis
Manager of Domestic Distribution
U.S. Borax & Chemical Corporation
3075 Wilshire Boulevard
Los Angeles, CA 90010

**VICE CHAIRMAN
BOARD OF DIRECTORS**
Robert M. Corcoran
Director-Traffic
USS, A Division of USX Corporation
600 Grant Street
Room 480
Pittsburgh, PA 15230

EXECUTIVE VICE PRESIDENT
James E. Bartley
1090 Vermont Avenue, NW
Suite 410
Washington, DC 20005-4905

August 5, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth Office Building
Washington, DC 20515-6348

Dear Chairman Rostenkowski:

The National Industrial Transportation League, the nation's oldest and largest shippers' transportation trade association, respectfully requests that your committee not use the federal fuel tax as a means of reducing the Federal deficit.

The League is a voluntary organization of shippers, shippers' associations, boards of trade, chambers of commerce, and other entities concerned with the purchasing of freight transportation services. It is the only nationwide organization representing shippers of all sizes and commodities using all modes of transportation to move their goods in intrastate, interstate, and international commerce. Its members, directly or indirectly, are responsible for the routing of about 80 percent of our country's commercial freight.

While a fuel tax would seem a simple solution, it penalizes those least able to pay. From a commercial standpoint, it will increase business costs so that lay-offs and other cost-cutting actions will have to be taken. From a competitiveness standpoint, it will only make more difficult U.S. businesses' efforts to more effectively market their goods both at home and abroad.

Highway users already are contributing to deficit reduction efforts. There is roughly $10 billion in funds that OMB is using to lower the deficit -- funds that by law are supposed to be dedicated solely to highway purposes. In fact, OMB advocates that it not pay interest on any trust funds monies -- a proposal which would cost the fund more than $1 billion annually.

The League supports efforts to reduce the deficit. However, we believe that these efforts must be structured so that no one segment is asked to contribute more than its fair share. Use of a federal fuel tax violates this criteria.

If you have any questions or wish to discuss the matter further, please do not hesitate to contact me.

Sincerely,

James E. Bartley
Executive Vice President

cc: Members of Committee

July 16-1987

Congressman Dan Rostenkowski

JUL 22 1987

Dear Sir,

I am writing to voice my opinion in the change you may be considering in the collection of federal Excise Tax on gasoline and disel fuel Products.

I am a farmer in North Central Illinois and as you well know the Prices for grain as being at a low for our income and we are struggling to get along to meet our expenses so we do not need an added expense to the cost of raiseing our Corn and soybeans by you the Congress voteing to raise the federal Road use Excise Tax and apply it toward the disel fuel for off the road - farm

-over-

-2-

And Construction being included

Please do not inact a Policy whereby federal Tax would be levied on all Products as it is Picked up at the terminal site instead of when the retail Customer (me) Purchases it from the Jobber -

Please do not increase the federal Excise Tax on gasoline - (19¢ Per gal) is a little High Wouldnt you say.

We are trying to keep food on the table & struggling to stay on top so Please for the farmers sake do not include the farmer in the federal use Excise Tax expense -

-3-

Thank you for Taking my thoughts into Consideration. It is very important that the American farmer stays in business as farming is your Bread And Butter also.

Yours Truly,
Raymond Robisky
R-1 Gardner, Illinois
60424

Phone
815-237-2440

Somerset County Truckers Association, Inc.
BOX 821
SOMERSET, PA 15501

July 28, 1987

The Honorable Dan Rostenkowski
Committee of Ways & Means
Room 2111 Rayburn House Bldg.
U.S. House of Representatives
Washington, D.C. 20515

Dear Sir,

We would like to express to y ou our feelings concerning the proposed legislation to reduce the Federal deficit by increasing the tax on fuel from 9¢ to 30¢ per gallon. We bitterly oppose this legislation.

Before any attempt is made to solve the Federal deficit problem, we must have legislation passed to place strong controls and limits on government spending. We must have a Balanced Budget Ammendment without the "loop holes" that would make it weak and worthless. Then, and only then, should something be done to solve the Federal deficit problems. The solution chosen to reduce and eliminate the Federal deficit must be one in which all Americans will share equally. It is outrageous to think that the leaders in the nation's capitol would expect one segment of the nation's businesses to pay this debt which is the responsibility of all Americans.

We want all monies taken in from registration fees, fuel taxes, fine monies from traffic violations, inspection and weight violations, highway use taxes and any other highway related taxes to all go into the Federal and State Highway Trust Funds only, and to be spent only on concrete, asphalt and highway related projects. We also want a Balanced budget Ammendment passed that is free from any loop holes. Only then would we be willing to accept a tax to pay the Federal deficit, providing that this tax money will only be used to pay the Federal deficit and nothing else, and that this tax would cease when the deficit has been eliminated. Petitions with signatures will follow at a later date.

Thank you,

Sincerely,

Gene E. Nicholson, President
Somerset County Truckers Assn., Inc.

cc: Senators Committee on Finance
The Honorable Lloyd Bentsen, Chairman (Texas)

Testimony of James E. Gaffigan,
Executive Director,
Travel and Tourism Government Affairs Council

Presented to
The Committee on Ways and Means
U.S. House of Representatives

Concerning the Imposition of a New Federal Gasoline Tax

July 9, 1987

The Travel and Tourism Government Affairs Council appreciates this opportunity to express, for the record, our opposition to legislative proposals which would impose additional federal gasoline taxes as a deficit reduction measure.

Travel and tourism in the United States is a $269 billion business, employing 5 million American workers and contributing nearly $18 billion already to the government in federal tax revenues.

Over eighty percent of our business relies on auto travel. As such, our industry is acutely aware gasoline is crucial to the economic health of travel and tourism. As the American Automobile Association (AAA), a member of the Council, projected in its testimony before this Committee, every one percent increase in real gasoline price would likely reduce car travel by one half of one percent.

We understand and appreciate the efforts of Congress to reduce federal deficits. But we would hasten to point out that our industry is dependent upon petroleum fuels for 97% of its energy, yet travel and tourism transportation accounts for only 4.4% of total domestic petroleum consumption. Consequently, we represent an enormous economic force which heavily depends on a relatively small amount of fuel, and one which could easily be severely handicapped by a sharp and sudden rise in price.

Moreover, a gas tax for the purpose of deficit reduction is simply unfair. Such a tax in not only regressive, it would fall more heavily on rural areas of the country. From an economic policy standpoint, it also puts a disproportionate share of the revenue-raising burden on industries, like travel and tourism, which are highly dependent on gasoline. You may well be aware that our industry supported Congress when it last approved a five cent federal gas tax increase because the accumulated revenues were earmarked almost exclusively for highway improvements.

In short, we are ready and willing to assume our fair share--whether it be contributing to the maintenance of the transportation infrastructure we are so dependent upon for our livelihood, or helping to reduce the federal deficit. We simply ask that the burden of reducing the budget deficit be shared as equitably as possible by all industrial sectors and that you consider the deterrent effect of such taxes to the economic viability of our industry.

We thank you for considering the views of the travel and tourism industry as you conduct your deliberations, and we will be happy to provide any additional information you may need.

Tuffy Manufacturing, Inc.

August 4, 1987

Honorable Dan Rostenkowski
Chairman, House Ways and
Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski;

On behalf of the Ohio Tire Dealers and Retreaders of Ohio, I urge you to strongly reconsider your opinion that increasing the Federal Motor fuel tax by 12 cents a gallon will help balance the budget.

In the first place, fuel taxes have traditionally been reserved for highway and transportation purposes. Our super highways primary and secondary roads and bridges across the country need continuous maintenance and improving. This is a country whose economy customs, mobility, etc. is largely affected by our access to easy travel on highways.

In the second place, prudent business practices and a restructuring of priorities in all branches of government would go along way towards balancing the budget. Business has to go through this restructuring often in order to keep competitive, and to avoid bankruptcy.

Finally, every state in the union is looking at ways to raise revenue, and they often add to gasoline taxes. It has been hinted that Ohio may have to add to the gasoline tax. Sooner or later you force motorists to drive less and thus more taxes become counterproductive.

Thank you for your consideration.

Sincerely,

Lewis Zimmerman
President

360 Massillon Road • Akron, Ohio 44312 • Phone (216) 784-7541

WRIGHT OIL COMPANY
P. O. Box 20677
El Cajon, Calif. 92021
(619) 562-3152

July 17, 1987

The Honorable Daniel Rostenkowski
Chairman of Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Eliminating the ability of Independent Gasoline Wholesalers to make tax-free transactions under Chapter 32 of the Internal Revenue Code

Dear Chairman Rostenkowski:

Wright Oil Company is an independent gasoline wholesaler with sales to both large and small independent gasoline station chains in California, Nevada, Arizona and Utah. We have held a Federal Excise Tax Exemption "J" card since 1982. In this letter, I will briefly explain the effects on the Wright Oil Company, as well as on the Government, of taxing 9.1¢ Federal Excise Tax at the time gasoline leaves the refinery. I will also point out a more workable alternative.

Effects on Wright Oil Company

Cash Flow - Wright Oil Company currently purchases 900,000 gallons of gasoline per day. Excise tax on these gallons equals $81,900 (900,000 X .091). We offer our customers ten day terms, which will increase our cash flow needs and accounts receivable by $819,000 ($81,900 X 10 days). Our bank currently finances 85% of our receivables up to our $8,000,000 line. This would increase our bank line by $696,150 ($819,000 X 85%), with the additional annual interest amounting to $76,576 ($696,150 X 11%).

Lost Sales to Major Oil Companies - When gasoline prices rise to a level that requires full utilization of our bank line, any additional rise in price or taxes will force us to reduce our sales volume. Assuming we are at our bank line limit before the excise tax is collected at the refinery, with the cost of gasoline at $.60 per gallon, ex-tax, our sales volume would be reduced by 11%, $\left(\frac{.60 + .09 + .045}{.60 + .09 + .045 + .091}\right) = \frac{.735}{.826}$ = 89%, 100% - 89% = 11%. This reduced sales volume would be replaced by the Major Oil Companies.

Quarterly Excise Tax Refund - We are projecting sales of 15,000,000 gallons of gasohol per quarter. If Wright Oil Company pays the 9.1¢ excise tax on all gasoline purchased, our gasohol sales will generate a quarterly refund amounting to $778,500, calculated as follows:

Excise taxes paid = 15,000,000 X 90% gasoline X 9.1¢ = $1,228,500
Excise taxes owed = 15,000,000 X 3¢ = (450,000)
Quarterly refund due $ 778,500

This refund would have an additional negative effect on our cash flow.

Effects on the U.S. Government

Increased Revenue - Eliminating the tax-free transactions from gasoline wholesalers would reduce the amount of excise taxes that are currently going unpaid.

Increased Number of Excise Tax Refunds - Currently Denver is proposing to make the use of gasohol mandatory in winter. This would effect jobbers in Wyoming, South Dakota, Nebraska and the rest of Colorado. California is also looking at gasohol as a way to reduce smog in our cities. The current alcohol blenders will be generating excise tax refunds each quarter. If Denver and California pass laws in favor of gasohol, the number of these refunds will increase dramatically.

Conclusion

Taxing 9.1¢ excise tax at the time gasoline leaves the refinery would be harmful to the Wright Oil Company and all other independent gasoline wholesalers, and would only be of benefit to the Major Oil Companies. The Government would receive increased tax revenues but would also have increased expenses from processing the numerous refund claims. A more workable solution would be to increase the reporting requirements of the gasoline producer and wholesaler to provide the Government with the necessary audit trails to collect all taxes due. Nevada is currently using this approach for their state excise taxes, with great success.

We would appreciate any changes to your proposal that would not be detrimental to the independent gasoline wholesaler and retailer.

Best regards,

William P Wright
William P. Wright
President

ASCE AMERICAN SOCIETY OF
CIVIL ENGINEERS

Washington Office
1667 K Street, N.W., Suite 750
Washington, D.C. 20006
(202) 785-4454

July 27, 1987

ASCE File: 2-22-2
3-116-2
3-3-2

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the 100,000 members of the American Society of Civil Engineers (ASCE) I am writing to urge the Ways and Means Committee to reject an increase in the federal motor fuel tax, or airplane ticket tax for deficit reduction purposes. ASCE commends efforts to reduce the federal budget deficit, however, diverting dedicated user fees away from support of the nation's critical transportation infrastructure and toward deficit reduction raises serious concerns.

There is growing awareness of the need to maintain and improve the nation's transportation systems. The user fees flowing into the Highway and Aviation Trust Funds provide essential funding for numerous road and airport projects, without adding to the general deficit. Strong public support exists for the user fee-trust fund concept. Diverting these revenues for deficit reduction would establish a dangerous precedent at a time when enhancing the nation's infrastructure would improve America's competitive position.

Your attention to ASCE's concerns is appreciated.

Sincerely,

Dan Barge, Jr.
President

ASCE 1852
Civil engineers make the difference
They build the quality of life

FUTA PROVISIONS

American Farm Bureau Federation

WASHINGTON OFFICE
600 MARYLAND AVE., S.W.
SUITE 800
WASHINGTON, D.C. 20024
AREA CODE 202 - 484-2222

July 21, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Rostenkowski:

We understand the Ways and Means Committee plans to vote this week on the issue of whether to extend the .2 percent extra tax that has been a part of the federal unemployment tax since 1977.

The original purpose of increasing the tax by .2 percent on a temporary basis was to pay off certain indebtedness that had been incurred due to a period of high unemployment.

That indebtedness has now been paid off and some $800 million will be collected over and above the indebtedness by the end of this year.

We oppose any extension of this extra tax and consider any action by the Congress to extend it to be a breach of commitment and a tax increase. We do not buy the argument that an extension of the extra tax should not be considered a tax increase. Unless the Congress extends the .2 percent it will cease to exist.

There is no justification for extending this tax. The debt is paid off and the extra money is not needed in any of the unemployment funds. If the extra tax is extended, it will mean that employers will be faced to pay a billion dollars a year that must be used only for unemployment compensation and would not be available to finance any other program of the federal government. It would not, in any real sense, reduce the deficit.

We are particularly concerned that a proposal before the Committee would not only extend the .2 percent extra tax; but would index the FUTA tax in the future.

We ask that the .2 percent extra tax be allowed to expire as originally promised.

Sincerely,

John Datt
John C. Datt
Executive Director
Washington Office

cc: Democratic Members of the Committee

AUBURN CABLEVISION INC.
32 OWASCO ST. • AUBURN, NEW YORK 13021 •TELEPHONE (315) 252-7563

September 1, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
U.S. House of Representatives
Room #2111 Rayburn
Washington, D.C. 20510

Dear Sir:

I was advised by the National Employers Council, my Unemployment Tax Representative, that the House Ways and Means Committee or the Senate Finance Committee may consider an extension of the "temporary" .2% FUTA tax enacted in 1978.

U.S. Secretary of Labor, William E. Brock declared triumphantly that such an action would not be taken as a means of "presenting" a balanced budget. The $1.3 billion dollars generated annually by this unnecessary tax cannot be used for any other purpose than to pay extended unemployment benefits to our nation's workers at a time when regular states benefits are exhausted.

The United States has prospered slightly in recent years as a result of a change from a manufacturing to a service based economy. Many small cities have in fact felt a resurgence. This growth in the economy should indicate that the need for extended benefits will not exceed $10,000,000 annually. Therefore, the employers of this nation should not be forced to contribute $1.3 billion dollars to this non-refundable account when such monies could be utilized to retrain workers or improve working conditions for existing workers.

As a taxpayers and an employer, I implore you to reconsider any action regarding an extension of the .2% FUTA tax. Allow this increase to expire as promised when the debt has been repaid.

It should also be noted that any action taken regarding the taxable wage base for FUTA would stagnate growth in the private sector by requiring an additional tax on wages up to the proposed new FUTA base. An action of this type would represent complete disregard for the principles of tax reform.

Taxing employers willing to hire new workers is a display of ambivilence that will not be tolerated. I urge you to vote no on this and any other unemployment tax increase proposal.

Sincerely,

Rita M. Valentino
Vice President

RMV:ps

BETTCHER MANUFACTURING CORPORATION

16000 COMMERCE PARK DRIVE • CLEVELAND, OHIO 44142-2082 • 216/267-0850

July 27, 1987

Senator Dan Rostendowski, Chairman
House Ways & Means Committee
1102 Longworth HOB
Washington, DC 20515-6348

It has come to our attention that the Congressional Joint Committee on Taxation has made the following recommendations:

1. Index the FUTA wage base
2. Extend the temporary 0.2% tax

Bettcher Manufacturing Corporation considers these tax increases unnecessary. We question the reasons for these proposed taxes and feel that unemployment tax levels are state issues, not concerns of Congress.

Please do everything possible to prevent either of these proposals from being adopted. Thank you.

Dolores A. Malenock

Dolores A. Malenock
Corporate Secretary

dlr

CHURCHILL
TRUCK LINES, INC.
P.O. BOX 280, CHILLICOTHE, MISSOURI 64601
TELEPHONE (816) 646-1590

TERMINALS:

ARKANSAS
FT SMITH
HARRISON
JONESBORO
LITTLE ROCK
SPRINGDALE

CALIFORNIA
LOS ANGELES

COLORADO
DENVER

GEORGIA
ATLANTA

ILLINOIS
AURORA
CHICAGO
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GALESBURG
MACOMB
PEORIA
QUINCY
ROCKFORD
ROCK ISLAND
SPRINGFIELD

INDIANA
INDIANAPOLIS
SOUTH BEND

IOWA
BURLINGTON
CEDAR RAPIDS
DES MOINES
FT MADISON
KEOKUK
OSKALOOSA
OTTUMWA
SIOUX CITY

KANSAS
ABILENE
COFFEYVILLE
HUTCHINSON
SALINA
TOPEKA
WICHITA

KENTUCKY
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NEW ORLEANS
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MINNESOTA
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MISSISSIPPI
HATTIESBURG
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MERIDIAN
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ST JOSEPH
ST LOUIS
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OHIO
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SIOUX FALLS

TENNESSEE
CHATTANOOGA
MEMPHIS
NASHVILLE

TEXAS
AUSTIN
DALLAS/FT WORTH
EL PASO
HOUSTON
SAN ANTONIO
SHERMAN
WACO

WISCONSIN
MILWAUKEE

Thursday,
August 6, 1987

Representative Dan Rostenkowski
Chairman, U.S. House Committee on Ways and Means
Washington, DC 20515

Dear Representative Rostenkowski:

We are informed that the federal unemployment tax of 0.6% plus the temporary 0.2% addition to repay the $8 billion borrowed in the 70's has finally been paid off; however, Congress is now attempting to extend the 0.2% temporary tax using the argument that employers are accustomed to paying it, so why not continue it.

Apparently, the proponents have forgotten that this is not a reduction, but is an end to a temporary tax employers were forced to pay to pay off the loan, and should be allowed to now expire after we have paid it for eleven years.

Also, we are told Congress is considering a proposal to index FUTA taxable wage base in 1989 and thereafter. We urge no such action.

We urge you to support allowing the 0.2% temporary tax to expire as scheduled and to oppose any plan for indexing.

Sincerely,

Kenneth Churchill

Kenneth Churchill
President

Kbkm

FOOD MARKETING INSTITUTE

1750 K STREET, N.W.
WASHINGTON, D.C. 20006
202/452-8444
TELEX: 892722 FMI USA WSH
FAX: 202/429-4519

July 20, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Food Marketing Institute (FMI) strongly opposes the proposal before the House Ways and Means Committee, as part of the 1988 Budget Reconciliation, to extend the temporary .2 percent F.U.T.A. tax scheduled to expire at the end of this year.

The Food Marketing Institute is an association representing food retailers and wholesalers. FMI's member companies operate more than 17,000 retail food stores and three-fourths of FMI's membership is composed of independent supermarket operators or small regional firms.

The temporary tax was enacted in 1976 to retire a debt incurred by federal/state extended benefit programs. The $8 billion dollar debt in the fund was repaid as of May 31, 1987. There is absolutely no need for this tax. Revenues generated by the temporary tax are dedicated solely to the Extended Unemployment Compensation Account which will have a projected balance of $1.24 billion by the end of this fiscal year and $2.17 billion by the end of FY 1988. Department of Labor projections indicate that interest earnings for 1987 and 1988 will be sufficient to meet expenditures for both years. The tax should not, therefore, be extended.

The temporary .2 percent tax costs employers $14 per year for every employee earning $7000 or more annually. Since our industry is very labor intensive and utilizes a large number of part time employees, this tax is particularly burdensome.

Congress made a commitment to employers when this tax was imposed that it was to be a temporary tax and its revenues would be used solely to repay the debt in the trust fund. The temporary tax has served its purpose. FMI strongly urges the committee to keep its commitment and oppose the imposition of a new tax on employers by extending the temporary .2 percent F.U.T.A. tax.

50
YEARS
Showcasing Supermarket Innovation

Sincerely,

Harry Sullivan
Senior Vice President
and General Counsel

HARRISON
THE PAINT MAKER
Dutch Standard

HARRISON PAINT CORP. P.O. Box 8470, Canton, Ohio 44711 (216) 455-5125 Ohio WATS: 1-800-362-0476 Outside WATS: 1-800-321-0680

July 23, 1987

The Hon. Ralph S. Regula
U. S. House of Representatives
Washington, D.C. 20515

Dear Representative Regula:

The Congressional Joint Committee on Taxation has made two recommendations which we find unacceptable:

1. Index the Capital F.U.T.A. Wage Base.
2. Extend the temporary 0.2% tax.

Our concerns are that the U. S. Department of Labor has projected that without these increases the F.U.T.A. accounts will exceed their statutory limits by 1991.

F.U.T.A. funds can only be used for the purpose of providing administrative funding for the Federal and State programs, paying the Federal portion of extended benefits, and providing loan reserves for states.

States must maintain a taxable wage base equal to or above the Federal level. If the Federal base changes each year, many states would require legislative action to conform to the newest Federal base.

Also, in our opinion, it would be a flagrant breach of a promise made 11 years ago for Congress now to create a new tax by extending a temporary tax that by law will expire December 31, 1987.

Further, unnecessary congressionally-mandated taxes are regressive and retard job creation. This new tax will do nothing to assist the structurally unemployed.

Unemployment tax levels are state issues, not concerns of congress.

We herewith ask you to oppose these unnecessary tax increases.

Very truly yours,

HARRISON PAINT CORP.

R. E. De Long
Secretary-Treasurer

R. E. DeLong
ls
cc: The Hon. Dan Rostenkowski

ICESA
INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.
SUITE 126, 444 NORTH CAPITOL STREET, N.W., WASHINGTON, D.C. 20001, 202/628-5588

July 13, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Interstate Conference of Employment Security Agencies (ICESA) is the organization of state administrators of unemployment compensation laws throughout the country. I am writing concerning two revenue increase options that the Ways and Means Committee is now considering: extension of the 0.2 percent portion of the Federal Unemployment Tax Act (FUTA) that would otherwise expire December 31, 1987; and indexing of the FUTA wage base.

In 1976, Congress approved an increase of 0.2 percent in the federal unemployment tax rate for the purpose of repaying to the general fund monies that were spent for federal extended and supplemental benefits during the mid 1970's recession. At the end of May, 1987, this debt to the general fund was finally repaid. Under current law, this means that the federal unemployment tax rate will drop from 0.8 percent to 0.6 percent on January 1, 1988.

Actuarial projections based on current law show a sizeable balance of $1.24B in Extended Unemployment Compensation Account by the end of 1987. By the end of FY 1988, the account would reach its statutory limit. Therefore, because the purpose for which the 0.2 percent surtax was enacted has been satisfied and the lower tax rate will provide sufficient funds for extended benefits, we urge you to permit the FUTA 0.2 percent to expire at the end of 1987 as current law provides.

Another proposal under consideration is indexing the FUTA wage base in future years to the average annual wage. ICESA's members have not taken an official position on this proposal, however, I would like to point out that this option would also generate federal revenues that are not needed by the unemployment insurance system at this time.

The fact that these options are being considered at a time when federal unemployment trust fund accounts are close to their statutory limits highlights the consequences of including unemployment insurance trust funds in federal budget totals. Administration of state unemployment insurance operations was cut by $144M in FY 1987 following years of cost containment. Many states have been forced to layoff staff and close local offices, reducing services to unemployed workers. Even though the federal unemployment trust fund (Employment Security Administration Account) carried over $1B from FY 1986 to FY 1987, the cut was made as a result of overall deficit reduction efforts. Tax increases now under consideration are also part of efforts to reduce the deficit; however, making cuts in UI or increasing FUTA revenues only masks federal spending elsewhere. UI trust funds can only be used for purposes permitted by statute.

ICESA strongly believes that decisions about UI taxes should be made on the basis of the financial conditions of the UI system. For this reason, we urge you to reject extension of the 0.2 percent FUTA surtax and consider separating UI trust funds from federal budget totals.

Sincerely,

William L. Heartwell Jr.
William L. Heartwell, Jr.
Executive Vice President

WLH:jkr
uitrust.j13

Jaci Carroll
PERSONNEL SERVICES, INC.
Temporary Help / Permanent Placement

Jaci Carroll
President

August 5, 1987

U.S. House Committee on Ways & Means
Attn: Dan Rostenkowski, Chairman
Washington, D.C. 20515

Dear Chairman Rostenkowski:

The net Federal Unemployment Tax has been 0.8% due to a temporary 0.2% addition which was tacked on in 1977 to repay the $8 billion borrowed during the seventies.

This amount has been repaid to the Treasury and the 0.2% addition is supposed to expire this year. A three year extension of this 0.2% is being considered by Congress as an option for reducing the Federal Budget.

Congress feels that since employers are accustomed to this 2%, it is unnecessary to reduce this figure.

As a business person, this would not be considered a reduction but an end to an extension for which we have been saddled with for eleven years, and should now be allowed to expire. These extra dollars could be used by companies to offset the increase in the employer's Social Security Taxes for 1988.

I urgently request you to reexamine this issue so that businesses may avoid this 2% extension.

Thanking you in advance, I remain

Sincerely,

Jaci

Jaci Carroll
President

:b

P.O. Box 1525 • Waterbury, Connecticut 06721 • (203)574-4838

KUX MANUFACTURING
12675 Burt Road
Detroit, Michigan 48223-3387
[313] 255-6460

GRAPHIC SYSTEMS

August 4, 1987

U.S. House Committee on Ways and Means
Mr. Dan Rostenkowski, Chairman
Washington, DC 20515

Kux Manufacturing Company protests the extension of the Federal Unemployment Tax of 0.2%. This is an end to an extension with which employers have been saddled for 11 years. It was enacted for a specific purpose, has served that purpose and should now be allowed to expire.

The money, amounting to $14 per employee, can be used more appropriately by private industry to stimulate growth and to offset the increase in employer social security taxes scheduled for 1988.

We also protest the proposal being considered as a revenue source to index the FUTA taxable wage base in 1989 and thereafter.

Very truly yours,

Robert J. Mundt
President

A SUBSIDIARY OF MITSUBISHI INTERNATIONAL CORPORATION

MGS

Mahoney Grease Service, Inc.

PROCESSORS OF FATS AND OILS
RURAL ROUTE 8 • JOLIET, ILLINOIS 60436

August 10, 1987

The Honorable Dan Rostenkowski
Chairman, Ways & Means Committee
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Rostenkowski:

As an employer of a small business in Illinois, I would like to express my displeasure and concern with the U.S. Congress in their efforts to continue the Federal Unemployment Tax at the rate of 0.8% rather than reducing the tax rate to 0.6%. In addition, I find the proposal to index the FUTA taxable wage base equally unacceptable.

As a representative of the State of Illinois you are aware of the imposition placed on small companies regarding the continuous increase in taxes at all levels: local, state, and federal. In my opinion, this money could be used more appropriately by private industry to stimulate growth and I implore you to consider this when you vote on these issues.

Sincerely,

James Mahoney

James Mahoney
President

jme

LOCAL 815-741-1199 ILLINOIS (1) 800-892-9392 OUTSIDE ILLINOIS (1) 800-435-9314

NMRI National Mass Retailing Institute
Richard I. Hersh
President
Headquarters: 570 Seventh Avenue, New York, N.Y. 10018 (212) 354-6600
Government Relations Office: 1901 Pennsylvania Avenue, N.W., Washington, D.C. 20006 (202) 861-0774

July 22, 1987

Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
Room 2111
Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Rostenkowski:

The National Mass Retailing Institute (NMRI) urgently asks that you oppose any attempt to impose upon employers any further extension of a .2% surcharge on Federal Unemployment Tax (FUTA). Under present law, the surcharge is scheduled to expire at the end of this year.

NMRI is a trade association that represents over 100 major discount retail chains located in all 50 states. Its members' sales constitute a majority of the $120 billion dollar a year discount retail industry. NMRI also has over 400 associate members whose companies constitute an important part of the American business community.

The surcharge was created for the sole purpose of repaying Treasury borrowings in the early 1970's for extended unemployment benefits. The debt was completely repaid as of May 31, and unemployment benefit trust funds are very well-funded.

Despite that, extending the FUTA surcharges has appeared in some lists of options to be considering in preparing a budget reconciliation bill for Fiscal Year 1988. There's simply no justification for extending a temporary surcharge when it has served its purpose, especially when it constitutes direct tax on jobs.

Once again, NMRI urges that you help keep an extended FUTA surcharge out of the budget reconciliation.

Sincerely,

Robt J Verdisco

Robert J. Verdisco
Vice President,
Government Relations

Belk

Belk / Monroe Mall, 2115 West Roosevelt Boulevard, P. O. Box 310, Monroe, NC 28110 / Telephone (704) 289-6551

John M. Belk, Chairman
Thomas M. Belk, President
C. L. Hunley, Exec. Vice President
J. R. Parker, Manager

August 18, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Representative Rostenkowski:

There is currently before the House Ways and Means Committee a proposal to extend the 0.2% increase in federal unemployment tax (FUTA). Congress imposed this increase in 1977 to repay a debt of $8 billion incurred in the early '70s to pay for excessive duration of benefits provided to the unemployed.

The 0.2% tax was set to expire on January 1st following the year the debt was repaid. William E. Brock, U.S. Secretary of Labor, announced on May 31, 1987 that the debt was repaid and the tax will expire on January 1, 1988. The savings to employers would amount to $14 per employee per year and an annual North Carolina statewide savings of over $35 million.

Since this account has paid all debts and will have several billion dollars in surplus at the end of 1987 with 13 states still owing the account $4.8 billion, there is no need for this tax to be continued. The N.C. Employment Security Commission and Governor Martin are on record as opposing the continuation of this tax.

We urge you to use your influence with the House Ways and Means Committee and on the floor of Congress to see that this tax expires as originally planned.

Sincerely,

Charles L. Hunley
Charles L. Hunley
Commissioner, N.C. Employment Security Commission

/jla

Charlotte Office / 308 East Fifth Street, Telephone (704) 372-8900
New York Office / 111 West 40th Street, Telephone (212) 391-6800

Paper
Manufacturers
Company

August 11, 1987

U. S. House Committee On Ways & Means
Honorable Dan Rostenkowski, Chairman
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Rostenkowski:

It has come to our attention at Paper Manufacturers Company, that Congress is considering a three year extension of the "temporary" 0.2% addition to the Federal Unemployment Tax. We feel that such an extension is inappropriate.

Employers have been saddled with this "temporary" tax bite for eleven years. This addition was enacted for a purpose, has served that purpose, and should now be allowed to expire. Such funds can be used more appropriately by private industry to stimulate growth and to offset the increase in employer social security taxes scheduled for 1988.

Another proposal to which we object, is the indexing of the FUTA taxable wage base in 1989 and thereafter. Although this option may be relatively remote, it is an option that would merely burden industry in an unwarranted manner.

Industry has experienced a tremendous recovery over the last several years, and we feel confident that the opportunity to be free of unnecessary tax burdens will allow us to more wisely put those funds to better use through extended growth and profitability, thus increasing the American workforce and profitability, which can ultimately only lead to a stronger economy, and all that it implies, including larger tax revenues.

We have consistently proven that we can get more bang for the buck by investing in ourselves, rather than paying unnecessary taxes.

Respectfully yours,

Raymond M. Remar

Raymond M. Remar
Corporate Secretary/Controller

/at

9800 Bustleton Avenue, Philadelphia, PA 19115 (215) 673-4500 800-223-3858

WHERE SHOPPING IS A PLEASURE

Publix super markets, inc

M. CLAYTON HOLLIS, JR.
DIRECTOR OF PUBLIC AFFAIRS/
PUBLIC RELATIONS

July 13, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Leonard:

In 1976, Congress enacted a 0.2 percent increase in the Federal Unemployment Tax, effective January 1, 1977, for the sole purpose of paying off the $8 billion debt incurred by providing benefits to the unemployed.

This tax was described as a "Temporary Tax," and we as employers were assured that once the debt was paid, the tax would expire. As of May 31, 1987, that debt has been retired. The law included the promise that the 0.2 percent tax would expire January 1, following the year the debt is paid.

Although the debt has been repaid, we are still paying this tax. By year's end, employers will have overpaid the account some $800 million. We feel no additional funds are needed.

We oppose HR 1308, which would make the 0.2 percent "Temporary Tax" permanent. The debt has been stamped "paid in full." Since we as employers held up our end of the deal, don't you feel Congress should hold up its end of the agreement?

Thank you for listening to our concern.

Sincerely,

PUBLIX SUPER MARKETS, INC.

M. Clayton Hollis Jr.

M. CLAYTON HOLLIS, JR.

MCHjr/jlb

● MAIN OFFICE AND WAREHOUSE, BOX 407, LAKELAND, FLORIDA 33802-0407 PHONE (813) 688-1188

SEILER Instrument & Manufacturing Co., Inc.
170 E. Kirkham Ave.
St. Louis, Missouri 63119

August 5, 1987

U. S. House Committee on Ways & Means
The Honorable Dan Rostenkowski, Chairman
U. S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I wish to express my displeasure with the attempt by Congress to extend the 0.2% extension to the Federal Unemployment Tax. It was enacted for a specific purpose and has served that purpose. To extend it would be unfair to employers.

As an employer, I would also like to protest the proposal being considered by Congress of indexing the FUTA taxable wage base for future years.

As you are a representative of the people, I would like to feel assured that we can count on your support to help us avoid the two (2) proposals mentioned above.

Sincerly,

Eric P. Seiler, Jr.

WALLACE
COMPUTER SERVICES, INC.
4600 W. ROOSEVELT RD. HILLSIDE, ILLINOIS 60162 TELEPHONE (312) 449-8600

August 7, 1987

The Honorable Dan Rostenkowski
U.S. House of Representatives
Chairman, House Ways & Means Committee
Washington, DC 20515

Dear Sir:

I understand one of the options being considered to reduce the Federal deficit is to extend the .2% increase in the Federal Unemployment Tax rate thru 1990. This is totally uncalled for and must not be allowed to happen.

The purpose for which this temporary tax increase was enacted in 1977 has been accomplished and the treasury will have been repaid this year, when the supplement is scheduled to expire.

The FUTA tax is for a specific purpose. It is not to be used to help reduce the Federal deficit.

I will look forward to seeing you using your influence to scuttle this proposal, should it come to your committee.

Sincerely,

T. Dimitriou
Chairman, President

United Health, Inc.

07/27/87

The Honorable Dan Rostenkowski, Chairman
United States House of Representatives
House Committee on Ways and Means
Washington, DC 20515

Dear Representative Rostenkowski,

I am writing in regard to the FUTA tax extension that the Congressional Joint Committee on Taxation is currently considering.

I wrote to you in August of 1986 detailing our concerns which are much the same as the current concerns:

a) we do not support the indexing of the FUTA wage base;

b) nor do we feel that the extension of the temporary 0.2% tax is necessary.

As you are aware, the Department of Labor has projected that without the tax increase the FUTA account will exceed the statutory limit by 1991. This means that the debt obligation would have been satisfied in 1987 which means that the net FUTA tax can be rolled back to 0.6% on the FUTA wage base of $7,000.

We maintain our opposition to the 0.2% tax extension for the following reasons:

a) the temporary tax has served its declared purpose;

b) there is a suggestion that the projected monies raised from the tax extension be used for general purposes: however, FUTA funds can only be used for providing administrative funding for federal and state unemployment programs, for paying the federal portion of extended benefits, and in providing the much needed loan reserves to the states: we object to the generation of additional revenues which are meant to address the budget deficit by dipping into the surpluses of dedicated accounts;

c) a change to the federal taxable wage base would necessitate further state legislation to come into line with the federal wage base;

d) we maintain that this extension would be made in violation of the promise our elected representatives made 11 years ago when the tax was first imposed - the extension would amount to the creation of a new tax by extending a tax that is currently mandated to expire on December 31, 1987;

e) we also maintain that this tax is an unnecessary congressionally mandated tax which is regressive at root level and serves to retard job creation;

f) we also maintain that unemployment levels are more properly state issues, and not the concern of Congress.

I, along with our entire staff, am confident that you will consider this question carefully and support any move toward the non-extension of the temporary FUTA tax. We are also confident that you will actively pursue a policy to maintain the FUTA wage base at it's current level.

Thank you for your attention to this matter.

UNITED HEALTH, INC.

Steven M. Gardipee

Steven M. Gardipee
Taxes/Payroll

American Agriculture Movement, Inc.
America Needs Parity!

American Agriculture Movement, Inc.
100 Maryland Ave., N.E., Suite 500A, Box 69, Washington, D.C. 20002
(202) 544-5750

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS

Statement on Behalf of
AMERICAN AGRICULTURE MOVEMENT, INC.

HEARING ON
REVENUE-RAISING OPTIONS

David Senter
National Director
American Agriculture Movement, Inc.

Mr. Chairman and Members of the Committee:

My name is David Senter and I am national director of the American Agricultural Movement, AAM. We represent family farmers in 34 states. In the ten years of our existence, we have provided a voice in Washington and around the country for one of America's most precious -- and dwindling -- resources: the American family farmer.

I want to discuss the impact of raising excise taxes on our members. It is no news to anyone that the family farm is in grave danger -- while our plight is not as fashionable in terms of news media coverage as it was a few years back, our situation has not improved. The combination of depressed prices for our products and high prices for the goods and services we need to purchase is continuing to drive the small farmer out of business. Foreclosures remain high; land prices low; and the continued importing of foreign commodities at prices below our cost of production is compounding the economic disaster.

It is with these factors in mind that I ask you to consider the effect of raising excise taxes on a segment of the population that is barely holding on to its economic lifeline. That effect is clear if you stop and think a moment about just what it is you are proposing to tax.

Cigarettes and cigars and smokeless tobacco are not manufactured in test-tubes. Tobacco is grown, grown in the soil by American farmers who, on average, own less than 500 acres of land. Raising excise taxes will indeed reduce consumption of tobacco products, and who will that hurt? The small farmer who is usually making just enough to keep his farm going and his family fed. A higher excise tax on tobacco is a lower income for America's tobacco farmers.

It's the same for alcohol. Barley, hops and grapes aren't made out of silicon chips -- they're grown, too, by farmers all over the country. And despite efforts by giant agribusiness concerns to centralize and control the crops, there are still plenty of small to medium-sized farms producing grain and fruit for use in alcoholic beverages. Raise excise taxes and you'll hurt them too....and eventually create a situation where every beer consumed in this country comes from Germany and every glass of wine from France, Italy or other wine producing nations.

Even farmers who aren't growing these crops are hurt by excise taxes. Every farmer in the U.S. uses gasoline in far greater amounts than urban or suburban Americans. Every farmer purchases car and tractor tires; every farmer is dependent on telephone services as the lifeline to the outside world. Every farmer is a consumer...and the ones we represent are not consuming hundred dollar dinners and thousand dollar wardrobes. That also holds true for the thousands of small rural shopkeepers who are especially vulnerable to the loss of revenue entailed by raising excise taxes.

As a representative of one of the most depressed sectors of the economy I can tell you that raising a tax which takes the same amount of money out of everybody's pocket -- no matter how rich or poor they are -- is un-American and unfair.

Don't console yourselves by thinking an increase in excise taxes is hidden and not felt by those who bear the greatest burden. You will be kicking people who are being kicked around enough. On behalf of what farmers there are left, we ask you to leave excise taxes out of this year's tax bill.

Thank you.

Submitted July 13, 1987

814 Weirfield Street
Brooklyn, New York 11237
21 July 87

House Ways and Means Committee
House of Representatives
Washington, D. C. 20515

Gentlemen:

I stand in support of H.Res. 168, which is opposed to an increase in the excise tax. This excise tax would once again place an unfair and disproportionate amount of the tax burden on those who can afford it the least. If you need additional tax revenues increase the income tax. This spreads the tax burden more evenly. Or if you are intent on an excise tax then place it on such items as clothing that costs in excess of $1,000, automobiles that cost in excess of $35,000, jewlery that in excess of $2,000 and caviar. All items that the wealthy use. But leave the poor and middle class alone.

Perhaps you will be kind enough to inform me why every time the Congress feels that it needs additional revenues it comes up with a scheme that places a disproportionate amount of the tax burden on the poor and never comes up with a scheme that treats the wealthy unfairly. Will you answer that question for me?

Cordially,
Jack Artale
Jack Artale
Marie Artale

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS

Statement on Behalf of
COALITION ON HUMAN NEEDS

HEARING ON
REVENUE-RAISING OPTIONS

Susan Rees
Executive Director
Coalition on Human Needs

Mr. Chairman and Members of the Committee,

My name is Susan Rees and I am executive director of the Coalition on Human Needs, a non-profit organization which represents the poor, minorities, women, children and the disabled. We stand for the idea that ultimately the federal government is responsible for seeing that basic human needs are met.

A major component of the Coalition's approach to solving social problems is its support for a fair, progressive tax system. This does not mean that we favor a system of minimal taxation, because only by raising sufficient revenues can we ensure that we provide for the basic needs of our society. Rather, we favor a system that exempts the poor and taxes according to ability to pay. No flat tax, including excise taxes unless they are on luxury goods, can meet this standard.

That is why we wholeheartedly oppose the proposed increases in consumption taxes on ordinary consumer goods. If there is any tax that is more unfair to the poor than an excise tax, I would hope that Congress never discovers it.

Let's assume that Congress raises the excise tax by the following amounts: 12¢ a gallon on gasoline; 49¢ a sixpack for beer; 32¢ on a pack of cigarettes; and by maintaining the current 3% tax on local telephone services. According to the Congressional Budget Office study released in January, this package would cost families earning less than $10,000 a year more than 2 1/2% of their incomes -- more than twice the tax cut the poor received from last year's reform act.

The less a family makes, the less they spend on items like gasoline, beer, cigarettes, and telephone. But the percentage of a poor family's income spent on these items is many times what it is for an upper-middle class or wealthy family. When a poor family spends $900 a year on gasoline, that's 6% of its earnings. When a wealthy family spends $1,800 a year on gas, that's less than three-tenths of a percent of its income. And the disparate percentages are even greater for tobacco, alcohol and telephone services.

The Coalition is wholeheartedly in favor of increasing tax revenue by the $19 billion needed -- or even more. What we do support is further progress toward making the tax system more equitable, by eliminating the loopholes and percentages favoring the rich which were left in last year's tax bill.

For example, the tax bracket for the nation's wealthiest families -- those earning over $200,000 a year -- is scheduled to fall from 38.5% to 28%. Left at the higher rate, this change would bring in $3 billion more than the minimum needed to meet this year's revenue goals. Expensive restaurants are not suffering from the new restriction on business meals to 80%; lowering the deduction to 50% would raise more than $6 billion in revenue while making progress on a basic fairness issue. Both these measures stem from the same moral notion, that you don't raise taxes on those who can barely afford to eat so that the wealthy can enjoy more on their table.

But even more to the point is eliminating the corporate loopholes that were lobbied into last year's tax act. The rush to Master Limited Partnerships and substituting debt instruments for stock by dozens of corporations demonstrates that all doors to tax avoidance must be closed to ensure that America's wealthiest entities pay their fair share of tax. Defense contractors are still using "completed-contract" accounting; wealthy investors who wouldn't know a longhorn from a buffalo are still profiting from tax-shelter farming. And the provisions which allow foreign investors to avoid withholding on investments, and which permit tax deferrals on runaway plants, are costing us billions in revenue and hurting working people as well. The coalition recently completed a study where we found a new class of poor people created by tax-subsidized bankruptcies and plant shutdowns by profitable companies.

We are not naive. We know that closing these loopholes which benefit only the richest will subject this Committee's members to the same frantic lobbying from well-financed special interest groups as you experienced last year. We know the Reagan Administration has not yet gained fame as a proponent of progressive taxation. But we also know that last year this Committee set a standard for fairness and for attention to the general public's welfare that influenced the House, the Senate and the Administration to make great progress towards more equitable taxation. We ask you to recommit yourselves to that standard, and to deny any proposed increases in excise taxes.

Thank you.

Submitted July 14, 1987

EAST HARLEM
Chamber Of Commerce, Inc.
2120 THIRD AVENUE (2nd FLOOR) NEW YORK, N.Y. 10029
(212) 996-2288

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August 5, 1987

The Hon. Dan Rostenkowski
Chairman House Ways and Means Committee
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Senator Rostenkowski:

This is to let you know that we are opposed to the proposal to increase excise taxes by the Congress. We believe that these taxes place unbalanced weight that is not favorable to a particular group of tax paying citizens that cannot afford to pay for them, on them.

The small businesses that make up our organization cannot pay for the sum total of excise taxes that are proposed on the variety of products they sell. The quality of the livelihood of these taxpayers will suffer if these measures are approved.

Please consider that there are other more appropriate measures to a solution to this problem that is more favorable to a larger group of people with more benefits for all of the group.

Sincerely,

Henry Calderon
Chairperson

HC/jafjr

Sponsors of: EL BARRIO LOCAL DEVELOPMENT CORPORATION INC.

STATEMENT OF

THE EDISON ELECTRIC INSTITUTE

DESCRIPTION OF POSSIBLE OPTIONS TO INCREASE REVENUES

JULY 14, 1987

The Edison Electric Institute (EEI) is pleased to comment on the possible options to increase revenues prepared for the Committee on Ways and Means in order to meet the reconciliation instructions contained in H.Con.Res. 93, the Concurrent Resolution on the Budget for Fiscal Year 1988. EEI is the association of the investor-owned electric utilities whose members generate and distribute approximately 75% of the nation's electricity.

The electric utility industry is opposed to the following possible options to increase revenues: 1) broad-based energy taxes such as a Btu tax or ad valorem energy tax; 2) the proposed pollution excise tax on sulfur and nitrogen emissions; and 3) any substantive changes to the Tax Reform Act of 1986.

Of major concern to the investor-owned electric utility industry are the proposals in the hearing pamphlet that seek to impose broad-based energy taxes. Particularly onerous is the proposed Btu tax on domestic energy consumption and the proposed ad valorem energy tax. Electric utilities have consistently opposed broad-based energy taxes such as these because of the adverse effect on U.S. residential and industrial customers. Historically, there has been a direct correlation between electric power use and GNP. Therefore, it would be counterproductive to impose energy taxes which would increase the cost of electricity.

Broad-based energy taxes are regressive because they have a disproportionately negative impact on our low-income customers. In addition, we are concerned about the inflationary and harmful effects such taxes on energy would have on the Nation's economy. We strongly urge the Committee on Ways and Means to reject broad-based taxes on energy consumption as a means of raising revenues.

Also of concern to our industry is the proposed pollution excise tax on sulfur and nitrogen emissions put forth by Rep. Judd Gregg (R-NH). This proposal, which appears on p. 50 of the hearing pamphlet, would establish a sulfur and nitrogen emission excise tax for the purpose of encouraging nationwide emissions reductions from fossil-fueled steam boilers. The Joint Committee on Taxation estimates the revenue effect of the proposal to be $19 billion over the three-year period of 1988-1990.

While this proposal would result in sharply higher electric rates, it would not achieve the short-term goal of emissions reductions. Utilities could not possibly build and install new pollution control equipment in this time period in addition to that already planned. Long-term coal supply contracts and the "local coal" provisions of the Clean Air Act also would constrain the industry's short-term ability to switch fuel supply based on sulfur content.

Furthermore, since 1973, electric utility sulfur emissions have decreased 17% while coal use has increased 80%. This could not have occurred without an aggressive utility industry control strategy. In addition, the industry is pursuing technologies which will burn coal cleanly, achieving both sulfur and nitrogen emissions reductions. These clean coal technologies are already in the demonstration stage and will provide a more economic and efficient method of producing electricity. We urge the Committee not to consider this pollution excise tax.

The electric utility industry actively supported tax reform, despite the loss of many capital formation incentives, because of the overall favorable impact on our customers. Therefore, we believe that the Tax Reform Act of 1986 should be given a chance to work and, thus, strongly oppose any changes to the Act that would negatively affect this carefully-crafted compromise enacted less than one year ago. Many of the proposed revenue options will have negative effects on our customers by increasing the cost of electricity (corporate tax rate increases/surcharges), increasing the cost of capital (the dividends received deduction) and decreasing cash flow (broadening the alternative minimum tax).

We appreciate the opportunity to provide our comments on this important work of the Committee.

Draft Testimony of Alain Carranza, Executive Director
Hispanic Federation of Illinois Chambers of Commerce
Submitted to the Committee on Ways & Means
U.S. House of Representatives
July 15, 1987

Mr. Chairman and members of the committee, I am Alain Carranza, Executive Director of the Hispanic Federation of Illinois Chambers of Commerce, which comprises some 11,000 Hispanic businesses throughout the state. Illinois has some 800,000 Hispanic residents, the fifth largest Hispanic population in the country.

I appreciate the opportunity to be here today representing the Federation on an issue of great concern to our members. That is, congressional proposals to raise excise taxes.

We realize the huge task facing the members of this committee as you seek to cut the federal deficit. However, we urge you to focus on means other than regressive taxation to solve our budget problems.

Excise taxes fall hardest on those least able to bear the burden-- the poor and minorities. Numbered among those who will be disproportionately affected are Hispanics, who suffer from high rates of poverty and unemployment.

Currently, one in three Hispanics lives in poverty. While Hispanics make up only 10 percent of this nation's children, they comprise 20 percent of the poor children.

As I am sure the committee is aware, according to a recent Congressional Budget Office study, excise tax rates as a percentage of income are as much as 15 times higher for low-income families than for wealthier households. For these families, who live on tight budgets, increases in the prices of every day goods, such as gasoline, beer and cigarettes, can pose a true hardship.

Hispanic businesses are especially hard hit by excise taxes. Most Hispanic businesses are small businesses and operate on a slim margin. Excise taxes must be passed on to consumers in the form of higher priced goods. The resulting loss in sales and profits can cause a ripple effect in the surrounding community as businesses close, workers are laid off and have less income to spend in other local establishments. At the very least, businesses wind up with less capital available to invest in wages and service improvements.

In a broader sense, excise taxes constitute unwarranted meddling in the market place, arbitrarily discriminating against consumers and producers of selected goods and services.

Perhaps the damage done by excise taxes would not be so striking if the benefits were not so limited by comparison. In exchange for the harm to consumers, businesses and the communities they support, excise taxes yield only a drop in the bucket toward erasing the ballooning crisis of federal debt.

Mr. Chairman, the Hispanic Federation of Illinois Chambers of Commerce supports efforts to reduce the federal deficit. But this worthy goal should not be accomplished on the backs of the working poor, Hispanics and other minority groups.

Thank you.

IGA, INC.

INTERNATIONAL STAFF OFFICE

JERRY C. PINNEY
Vice President
Marketing Division

July 8, 1987

Congressman Dan Rostenkowski
House Ways & Means Committee
2111 Rayburn House Office Building
Washington, DC 20515-1308

Dear Congressman Rostenkowski:

As a member of the House Ways & Means Committee, you are deeply involved with drafting a tax bill. Some members of Congress, some White House staffers, the media and others are saying that increased excise taxes — those hidden taxes on alcohol beverages, gasoline, truck tires, airplane tickets, cigarettes, fishing equipment, telephone calls and a few other goods and services — are "politically safe" simply because they are hidden in the cost of the product or service.

Just last year, Congress promised America's low to middle-income working men and women a tax break. Don't take away that tax break by increasing "hidden" taxes — enough is enough!

Excise taxes hurt low to middle-income consumers. Congress should live-up to the promises of tax fairness made in the Tax Reform Act of 1986. Excise taxes are "hidden taxes" buried in the cost of products and services; Congress should be honest with taxpayers.

Each of the states also taxes beer, wine and liquor. These taxes are an important part of state revenue. Increased federal taxes will increase prices and decrease sales, thus cutting into state revenues. I hope you will take these observations to heart as you are participating in the drafting of tax legislation.

Sincerely,

Jerry C Pinney

JCP:lj

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Philip M. Klutznick
737 North Michigan Avenue • Suite 620 • Chicago, Illinois 60611

September 1, 1987

The Honorable Dan Rostenkowski
Chairman
House Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

My dear Dan:

It begins to appear that in the key position that you occupy in our nation that there is hardly a day that goes by that someone does not ask me whether I know you and if I would be willing to add my voice to theirs in favor of one idea or another. I resist any such temptations because you are operating in a field that has so many complications that I try to be objective and not disturb you over something that I know nothing about or, in the alternative, concerning which I have no particular conviction. However, this does not preclude raising a question which I hope you are considering seriously.

I quit smoking long ago so taxes on cigarettes have no particular impact as far as I am concerned -- beer only to a little degree, wine to a greater degree, and gasoline obviously because I do have to get around. I understand that there is some consideration being given to raising excise taxes on all of these elements. I was surprised to learn the other day that there are those who present convincing arguments that such a move would have a very deleterious effect on employment in Illinois and on the revenue base of our state.

I cannot truthfully say that I have investigated this matter sufficiently to support that view other than the fact that I respect the people who have called it to my attention. I felt obligated, therefore, to write you because I know that you would not want to do anything that would react negatively to the interests of our state.

I do not envy you your problems at this stage of our economic worries.

Best wishes.

Cordially,

Philip M. Klutznick

PMK:rs

ROBERT M LARSEN
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORP

July 9, 1987

Honorable Chairman Dan Rostenkowski
House Ways and Means Committee
House Office Building
Washington, DC 20510

Dear Honorable Chairman Rostenkowski:

Most informed Americans are aware of both the House and Senate's resolutions calling for an 18 billion dollar tax increase for next year. It is moot whether there should be a cut in expenses or an increase in taxes as always.

You people have recently rewritten practically the entire Internal Revenue Code which is now referred to as the 1986 Code. If taxes must be increased, I would suggest not in this area.

My sense is that you are going for various types of excise taxes such as gasoline, alcohol and tobacco which are the "sin taxes". You know that excised taxes actually discourage consumption and are unfair burdens to those industries and the people who serve them.

All excise tax comes to 33 billion dollars per year. If they (excise tax) carry the entire burden of the 18 billion proposed tax increase, that would be an addition to tax in those industries of over 54% which is unconscionable.

I do not wish to arrogate the prerogatives of Congress; however, I think a better tax, if it is truly necessary, would be a broad energy tax on oil imports!

I personally have suffered a great deal in having properties in Houston and Dallas. This was brought about partly because of the drop in oil prices.

I would suggest that we apply an oil import tax so that our own domestice producers would fair better in this cyclothymic

1850 MT DIABLO BLVD, SUITE 510 WALNUT CREEK, CA 94596 (415) 932-1400

industry which has been devastated over the past 2 years.

It is my impression and perception that over 80 million beer drinkers would be vehemently opposed to your proposed increase which could augment their cost on a six pack of beer by as much as 70 cents.

It is my believe that it would take a very brave and/or foolish Congressman to propose such a tax increase on beer consumption!

As far as the "sin tax" is concerned, it is my perception that beer drinking imposes no cost on society and in fact, provides health and economic benefits.

My reading of health articles tells me that the drinking of beer actually is very good for the HDL's in the cholesterol level for Americans. I would think that Congressmen would encourage and foster an industry which brings about healthful foods and ingredients for their constituency.

Sincerely,

RM Larsen

Robert M. Larsen, CPA

RML:daj

Testimony of Joseph Trevino
League of United Latin American Citizens
Submitted to the
Committee on Ways & Means
U.S. House of Representatives
July 9, 1987

My name is Joseph M. Trevino, and I am Executive Director of the League of United Latin American Citizens (LULAC). We are the nation's oldest and largest Hispanic organization, with over 110,000 members in 45 states.

I appreciate the opportunity to address the committee **on a subject which has serious implications for Hispanics: proposed increases in federal excise taxes on everyday items such as gasoline, alcohol, tobacco and telephone service. These taxes have an adverse and disproportionate effect on Hispanics and other minorities.**

Mr. Chairman, last year Congress took an important step toward tax equity when it passed the historic Tax Reform Act. That measure succeeded in linking tax responsibility more closely with ability to pay. Low-income citizens won fairer treatment under the new law, including a large proportion of Hispanics, blacks, women and blue-collar workers.

This year you are engaged in the unenviable task of taming the federal deficit. And in meeting that challenge, many of us are concerned that Congress will retreat from the progress made last year. Increases in excise taxes represent such a threat.

Excise taxes are regressive. They stand the concept of tax equity on its head, placing the greatest burden on those least able to pay. I've heard them called "reverse Robin Hoodism" -- taking from the poor to give to the rich.

Increases in these taxes would constitute a giant step backward for low- and middle-income people. I am sure you are aware of the recent report by the Citizens for Tax Justice which shows that, as a percentage of family income, **the impact of excise taxes on low-income families is 27 times the impact on wealthy families.** That report followed an earlier study confirming the regressivity of excise taxes, issued by your own Congressional Budget Office.

The CTJ report also found that raising the necessary new revenues through excise taxes would wipe out the tax benefits given to low- and middle-income citizens by last year's tax reform, while wealthy taxpayers would keep most of their 1986-enacted tax cuts. Similar conclusions were reached in a report issued by the Coalition Against Regressive Taxation.

Unfortunately, Hispanics as a group are among those least able to bear this regressive tax burden.

Hispanics have made, and continue to make, economic and political advances in this country. They have become integral contributors to our multiracial society. The percentage of Hispanic-Americans who have finished college has climbed over the last 12 years from 6 percent to nearly 11 percent, and this rise continues. The number and success of Hispanic-owned businesses is also increasing.

Hispanics are a fast-growing population. One out of every 14 people in America claims to be of Hispanic origin. The Hispanic population of the United States in 1985 reached 17 million, or 7.2 percent of all Americans, and is expected to surpass 25 million by the year 2000.

At the same time, however, Hispanics as a group continue to have among the highest levels of poverty and unemployment in the nation.

One in three Hispanics in the U.S. lives in poverty. Forty percent of Hispanic children -- 2.5 million in all -- live below the poverty line. The median Hispanic family income was $19,027 in 1985, a drop of 10 percent from 1973, and more than $10,000 less than the median for white families. The Census Bureau estimates that if current trends continue, hispanics will surpass blacks in the next few years as the ethnic group with the highest poverty rate in the nation.

Let me add that the large number of these Hispanic families are working poor. For many of them, work is seasonal at best. And the income of a person working full time at minimum wage now falls about $2,100 below the federal poverty line.

An excise tax increase may be an inconvenience to a family with a comfortable income -- but to families who have to watch every penny, it is more than an inconvenience, it is a tangible burden.

It also is significant that several of the everyday goods subject to excise taxes are used by greater proportions of low-income Americans than by the higher-income population. And a taxable item like gasoline is a particularly important commodity to the large proportion of Hispanics, who are not concentrated in urban areas and do not have access to mass transit.

Excise taxes also unfairly affect Hispanic-owned businesses, most of which are small businesses. These establishments form the backbone of many Hispanic communities. They are much more vulnerable to price increases than are their larger competitors. When these businesses are forced to pass increased excise taxes along to consumers in the form of higher priced goods, the result can be lost business and lost jobs.

In closing let me reiterate that LULAC appreciates the difficult challenge facing Congress as it seeks to reduce the federal deficit. A healthy economy benefits all Americans.

But let us eliminate the deficit fairly and equitably, not by singling out one segment of society -- a segment which can least afford it -- to bear a heavier burden.

Thank you very much.

NALEO

National Association of Latino Elected and Appointed Officials
... and the people who support them

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August 19, 1987

The Hon. Dan Rostenkowski
Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rostenkowski:

The National Association of Latino Elected and Appointed Officials (NALEO) is very concerned about proposals to increase the federal excise tax rate on some items. As the attached analysis demonstrates, excise taxes are inherently regressive and will disproportionately affect low income peoples. With 29% of all Hispanics living in poverty, NALEO is very concerned that any change in the tax code take into account the needs of our country's low income population.

NALEO respectfully requests that your committee give full consideration to the arguments against increasing excise taxes when considering any such legislation.

Sincerely,

Harry Pachon

Harry Pachon, Ph.D.
National Director

708 G Street, S.E.
Washington, D.C. 20003
(202) 546-2536

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EXCISE TAXES

- **Excise taxes are regressive** -- The lower the family income, the higher the proportion of income paid in excise taxes. In contrast, under "progressive" taxes (such as the income tax), the higher the income, the heavier the tax burden. Regressive taxes like excise taxes disproportionately and adversely affect those who can least afford to pay them -- low- and middle-income families and blue collar workers.

- **Excise taxes are fundamentally inequitable** -- In a democracy, everyone should pay their fair share. Fair taxation should be based on the ability to pay. Many excise taxes are paid by those who do not "receive the benefits" of the tax. The payer of excise taxes -- whether for the general fund or dedicated for special purposes -- subsidizes other citizens who may benefit from government functions, without cost to themselves.

- **Excise taxes are an unfair burden on minorities** -- Blacks, Hispanics and some other minorities have disproportionately high levels of poverty and unemployment. Therefore, increases in excise taxes affect these groups much more than other Americans. (In 1985, 31.3 percent of all Black Americans and 29 percent of Hispanics were living in poverty; more than half of all Black and Hispanic families headed by single women live below the poverty line.)

- **Government data demonstrates the unfairness of excise taxes** -- A recent report by the Congressional Budget Office showed that, as a percentage of income, excise tax rates are as much as 27 times higher for low-income families than for wealthier households. It also showed that the relative impact of an increase in federal excise taxes on low-income Americans would have as much as three times the impact on higher-income people.

- **Excise taxes are arbitrary** -- They randomly discriminate against consumers and producers of selected goods and services, and particular demographic groups.

- **Excise taxes are hidden taxes** -- It is against the American philosophy to levy "secret" taxes -- yet taxpayers are unaware that they are paying excise taxes, since they are hidden in the price of goods and services.

- **Excise taxes are an unfair burden on businesses** -- Businesses generally must pass excise taxes onto consumers in the prices they charge for taxed goods. As a result, sales and profitability may suffer, causing lost wages and lost jobs. Especially vulnerable are minority-owned businesses, because most of them are small businesses. Price increases may cost their ability to compete with larger outfits, and ultimately force them to close their doors.

- **Excise taxes are bad economic policy** -- Excise taxes have been criticized as poor public policy by many well-respected economists and other experts. Such taxes reduce consumer spending power, limit capital investment, slow the growth of the economy and encourage unemployment. They also are inflationary, since they cause price increases without any increase in the actual value of the goods or services purchased.

national black police association nbpa

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July 23, 1987

Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski,

The National Black Police Association (NBPA) would like to go on record opposing the current legislation which would raise the federal excise tax on consumer goods.

As you know, the 1988 Congressional Budget Resolution calls for $19.3 billion in tax increases in an effort to meet the Graham-Rudman-Hollings deficit target.

The focus has been on increasing excise tax rates to meet this revenue goal. The NBPA feels that this is a bad idea. Excise taxes are regressive and hit hardest those that are least able to pay.

The facts are, that minorities make up a disproportionate amount of lower income groups and an increase in excise taxes would hurt the Black and poor most.

We would like to take this opportunity to urge you not to encourage the proposed excise tax increase.

Thank you for your support.

Sincerely,

Ronald E Hampton

Ronald E. Hampton
National Information Officer

RH/lo

Submitted by:
The Honorable John Smith
Mayor, Prichard, Alabama
President
National Conference of Black Mayors, Inc.

TESTIMONY FOR THE HOUSE WAYS AND MEANS COMMITTEE FOR THE NATIONAL CONFERENCE OF BLACK MAYORS, INC.

The National Conference of Black Mayors, Inc. (NCBM), an organization committed to development, leadership and issues of importance to its national constituency whose 294 black mayors represent 30 states is pleased to have the opportunity to address the House Ways and Means Committee on the issue of potential revenue raising options.

The NCBM monitors and addresses issues affecting all of its citizens, particularly the poor and those with low incomes. These roles compel us to speak out against any measure which will unfairly burden these groups.

For this hearing, the Conference specifically wants to address those types of taxes that should not be used in attempts to balance the budget and reduce the national deficit. Those taxes are excise taxes on consumer goods and services.

Members of the NCBM recognize the current fiscal dilemma concerning the federal budget. The Conference agrees the United States Congress must take steps to reduce the national deficit and to restore confidence in the budget process.

But the NCBM does not agree with the proposals suggesting an increase in excise taxes on gasoline, tobacco, alcohol products, telephone service and airline tickets as a way to meet fiscal goals. Throughout the history of the country, excises have been hidden taxes, regressive taxes and above all, unfair taxes.

A number of groups and agencies, including the Congressional Budget Office (CBO) and consumer advocates have commissioned studies on the impact of increases in federal excise taxes. They all reach the same conclusions: Any increase in excise taxes places a disproportionate burden on lower and middle income Americans.

Just last year, the actions of the Ways and Means Committee and the rest of Congress was hailed by the American public. The tax reform act restored faith in the tax system -- reducing the tax burden for low- and middle-income Americans.

But report after report testifies increases in excise taxes will wipe out the moderate gains made last year for those families at the bottom of the economic ladder and, in fact, cause them to pay more. For instance:

o The Citizens for Tax Justice in a report, "Will Tax Reform Be Extended or Undermined?" found a package of excise tax increases studied by the CBO would cost families earning less than $10,000 a year more than 2.5 percent of their incomes -- more than double the tax cut the poor gained from last year's tax reform act. Middle class families also would pay more in excise taxes than they gained from tax reform.

- The Congressional Budget Office found the average increase in taxes as a percentage of income would be about twice as large for families with incomes between $10,000 and $20,000 compared to families with incomes of $50,000 or more.

- A study done for Consumers Opposed to Secret Taxes (COST) by Quick, Finan and Associates points out the burden would fall on the lower and middle income people. It also examines the impact on states. "An increase in federal excise taxes would squeeze the state's revenue-raising capacity and could set off an upward spiral in state tax rates," thus again hitting the lower income groups.

- Finally, a report done for the Coalition Against Regressive Taxation (CART) by Peat Marwick Main & Company highlights another area of concern. Excise taxes hit the aged more severely than the non-aged. Those over age 65 would pay a 10 percent higher portion of their income for increased excise taxes than those under 65.

Whether the reports show a gas excise tax increase would cost the average household $98 in Boston and $176 in Houston, or the telephone excise tax costs a family $24 in Mississippi but $45 in Connecticut, or that tobacco excise taxes make up only 0.035 percent of a taxpayer's income over $200,000 but 1.3 percent of one earning below $10,000, they all point out one conclusion -- the unfairness and regressive nature of excise taxes.

The National Conference of Black Mayors requests, as you consider revenue raising options, you bypass the route which balances the budget on the backs of the poor and instead, opt for solutions that will spread the tax burden in a fair and equitable manner.

This is the 200th anniversary of our nation's Constitution. The Constitution gave Congress the power to tax, but it also challenged our country's founders to "establish justice, insure domestic tranquility... promote the general welfare, and secure the blessings of liberty to ourselves and our posterity."

The Conference requests also, as you consider revenue raising options, that you keep these founding principals in mind.

Testimony of Elton Jolly
Opportunities Industrialization Centers of America
Submitted to the
Committee on Ways & Means
U.S. House of Representatives
July 9, 1987

My name is Elton Jolly, and I am President and Chief Executive Officer of Opportunities Industrialization Centers of America (OIC). OIC of America is a network of comprehensive, non-profit training and employment placement programs throughout the country serving the economically disadvantaged, unskilled and underskilled persons in America.

I appreciate the opportunity to testify before the committee, and am confident that many committee members share the spirit of OIC's mission. I am concerned, however, that some of the proposals before us today would hinder those whom OICs work so hard to help, and the ability of economically disadvantaged Americans to stand on their own.

I am speaking about proposals to increase excise taxes on everyday items -- from gasoline to telephone service, cigarettes to beer. This type of taxation aggravates poverty and unemployment. They impede the progress of people eager for opportunities to work, to advance themselves and to realize relatively small dreams, but who, for lack of money and skills are trapped in the circle of poverty.

The committee recognized this when, as part of the historic Tax Reform Act of 1986, removed individuals who earned below $4500 (individual return) from the tax rolls. That helped my constituency -- such as high school drop-outs, single mothers, displaced workers, and particularly youth, -- take a step forward. It allowed these people to stop worrying about their income tax burden until they became productive citizens, able to pay.

Now, after this important step toward tax fairness and equity, some in Congress wish to repudiate their historic accomplishment by increasing excise taxes on several basic necessities and everyday items.

Excise taxes are regressive, increasing in relative magnitude as income decreases. They are a thinly disguised attempt to raise taxes at the expense of consumers who are least able to afford them. They increase the price of everyday goods, increase the costs of doing business, decrease business profits, lower workers' wages, and encourage unemployment. They take a disproportionately large bite out of the budgets of low-income families.

Recent reports by independent organizations -- and by the Congressional Budget Office -- document the regressive effects of excise taxes. As a percentage of income, the difference in the impact of excise taxes on low-income families and high-income families is as high as 25 times or more.

And, as I mentioned, excise tax increases could wipe out the gains made by low-income people in last year's Tax Reform Act. According to a report by Citizens for Tax Justice, a major package of excise tax hikes would cost the poor more than double what they gained in income tax cuts, while the wealthy would walk away with most of their 1986 cuts intact.

Significantly, excise taxes also are discriminatory, placing an unfair burden on minorities. Blacks, Hispanics, youth, single mothers and others have disproportionately high levels of poverty and unemployment. Increases in excise taxes, therefore, affect these groups much more than others.

In short, excise taxes drain money from the already economically disadvantaged individuals we work with at OICs, and from the businesses that we need to create job opportunities for those people. During its more than 20 years, OICs have served over 970,000 persons; more than 724,000 received training and 75% of them are now employed. About one-third of our trainees were on welfare before coming to us. The federal government cannot afford tax policy that aggravates poverty and discourages individuals from becoming self-sufficient and productive workers. I urge you to reject increases in excise taxes.

Thank you.

Statement In Opposition To
Increase in Excise Taxes on Consumer Products
Submitted on Behalf of Philip Morris Companies Inc.
By Hamish Maxwell
Chairman of the Board and Chief Executive Officer

I thank you for the opportunity to present this statement on behalf of Philip Morris Companies Inc., of which I am Chairman of the Board and Chief Executive Officer. We are opposed to an increase in selective excise taxes on consumer products in *any* form, whether the increase is accomplished through direct increases in the rates of such taxes, or through an indirect means such as an indexing mechanism.

Philip Morris Companies Inc. is among the world's largest manufacturers and marketers of tobacco, food and beer products. In addition to being the largest producer of cigarettes in the United States, with additional markets in more than 170 countries and territories, the Philip Morris family includes General Foods Corporation and the Miller Brewing Company. The 1986 operating revenues of Philip Morris were $25.4 billion. Philip Morris employs 73,000 people in the United States, including 20,000 related to tobacco and 11,000 to brewing.

Overall, beer and tobacco create economic and pleasurable benefits for 80 million beer drinkers and 60 million smokers. According to a study by Chase Econometrics,* the tobacco industry generated 710,000 jobs directly and another 1.6 million indirectly. It accounted for $31.5 billion of GNP in 1983 and for tax revenues of over $13 billion. The beer industry directly employs nearly 190,000 people and creates an even greater number of indirect jobs. These employment figures include a quarter of a million farm families who produce the 1.3 billion pounds of tobacco and the 7.6 billion pounds of barley, hops, corn and rice used in these industries each year.

Philip Morris was an early and vigorous supporter of the Administration's tax reform proposals, and we strongly supported Congressional enactment of the Tax Reform Act of 1986. The principles of that reform, as enunciated early in the legislative process by Secretary of the Treasury Baker, were to eliminate use of the tax system as a means "to favor one taxpayer over another, to favor one industry over another, to favor one form of consumption over another, or to favor one investment over another." In other words, the objectives were to eliminate preferred tax treatment of some taxpayers, to distribute the tax burden more equitably among all taxpayers and to make the tax system more neutral with regard to business investment decisions. These objectives were substantially accomplished in the Tax Reform Act of 1986, while benefiting American taxpayers through a reduction in tax rates.

Now, as one alternative to reducing the deficit, some have called for a massive increase in federal excise taxes on consumer products, and especially on beer and tobacco products, which are consumed by tens of millions of lower and middle-income individuals. This would amount to the largest excise tax increase in U.S. history. It would totally abrogate the benefits of tax reform for a substantial portion of the American people.

---

*The Economic Impact of the Tobacco Industry on the United States Economy, Chase Econometrics, January 1986.

I. CONGRESS SHOULD REJECT ANY FORM OF SELECTIVE EXCISE TAX INCREASE ON CONSUMER PRODUCTS

We believe Congress should reject any proposals that would raise selected federal excise taxes on consumer products. We believe that such tax increases, whether effected through direct or indirect means, should be rejected for the following reasons, which are explained more in detail below:

1. Excise tax increases are highly regressive, with increases in the excise tax on tobacco being the most regressive of all. Substantial excise tax increases would impact most heavily on large numbers of low and moderate income individuals who would be quick to notice the impact when they purchase tobacco, beer or gasoline.
2. The proposed excise tax increases would create economic distortions and run counter to the notions of fairness and economic neutrality reflected in the Tax Reform Act of 1986, adversely affecting decision-making by consumers in the marketplace. Low and moderate income Americans (in families with annual incomes of under $30,000) would find that these proposals would virtually wipe out the benefits of the income tax rate reductions which were promised to them by the President and Congress in enacting the Tax Reform Law.
3. Excise tax increases are inflationary.
4. Substantial increases in excise taxes would result in substantial economic injury to farmers, suppliers, distributors, and workers.
5. Beer and cigarettes are already heavily taxed, causing their consumers to bear more than their fair share of the costs of government.
6. Increased Federal excise taxes would impair a revenue source traditionally relied upon by State and local governments for a substantial part of their revenue.

1. Regressivity and Ability to Pay

Raising existing excise taxes on consumer products would hit hardest those individuals least able to pay.

This is because excise taxes on consumer products are not based on ability to pay. They require low- and middle-income consumers to use a larger fraction of their incomes to pay the taxes than citizens with higher incomes. That leaves smaller portions of their limited incomes available for spending on other goods and services. A study prepared by the Congressional Budget Office in January, 1987, for Senator George Mitchell found that the average increase in taxes as a percentage of income to be about twice as large for families with incomes between $10,000 and $20,000 as for families with incomes of $50,000 or more; and three times as large in the case of excise taxes on tobacco and beer. The study concluded:

> "An increase in the excise tax on tobacco would be the most regressive of all the taxes considered."

An analysis of excise tax and tariff proposals made by Senator Packwood in 1986, prepared by deSeve Economics** also concluded that excise tax increases would be borne disproportionately by low income taxpayers.

The rationalizations offered to suggest that excise taxes are not really as regressive as they appear are lacking in merit. Assistant Secretary Roger Mentz suggested in his April 21, 1986 statement that excise taxes "appear to be more regressive than they would if lifetime consumption and income data were relied upon." Mr. Mentz's hypothesis suggests that since young families and retired people spend a higher proportion of their income than do middle-age families, over a

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**An Analysis of the Federal Excise Tax and Tariff Proposals in the Senate Finance Committee, deSeve Economics, April, 1986.

lifetime everything works out even. Does anyone seriously believe that an elderly low-income person will not find increased excise taxes regressive because he had higher income before he retired? Does anyone seriously believe that young families will not find increased excise taxes regressivebecause they can look forward to the statistical probability of higher income levels at some future point in their lives? Although a novel approach for concluding that "lifetime" excise taxes are less regressive, one still must conclude that the impact of an excise tax increase is immediate and highly regressive.

Mr. Mentz further suggested that increases in selective taxes are not regressive because individuals who do not choose to consume the taxed goods do not have a tax burden. Neither Mr. Mentz nor the tax law should be defining for the American people the very questionable distinction between necessities and discretionary purchases. One of the underlying objectives of tax reform, as enunciated by Secretary of the Treasury Baker, was to eliminate use of the tax system as a means "to favor one form of consumption over another." Furthermore, the factor of choice does not alter in any way the basic fact that the increased tax will be very regressive to the low and moderate income people who in fact do consume the taxed articles.

Congress understandably decided in 1986 to reform our tax system to reduce the defacto regressivity of the income tax system, moving away from the same type of pernicious effects created by highly regressive excise taxes. Nothing has occurred in the few months since then to warrant a reversal of that decision.

2. The Proposals Reverse the Central Accomplishments of Tax Reform

The proposals to increase selective excise taxes on consumer products are also inconsistent with other primary objectives of last year's tax reform. The excise tax proposals would levy a huge increase on millions of individuals in lower economic brackets rather than distributing the tax burden more equitably among all. Instead of making the tax system more neutral with regard to business investment decisions, this new kind of "tax reform" would burden selected products and services, would not distribute the tax burden equitably, and would distort resource allocation.

Philip Morris is already among the highest effective rate income taxpayers in the corporate community, and we are dismayed to see a proposal for an increase in selective excise taxes when the increase is targeted primarily to three items -- tobacco, alcohol and fuels -- that are already among the most highly taxed items in America. From any reasonable perspective, the proposal would seriously undermine the goal of economic neutrality, which was a major objective of the Tax Reform Act of 1986.

When the Senate Finance Committee considered direct and indirect increases in excise taxes as part of tax reform last year, Assistant Treasury Secretary Mentz, in his statement before the Senate Finance Committee on April 21, 1986, indicated that key elements of tax reform were a maximum tax rate no higher than 35 percent and tax brackets that reduce taxes for middle-income Americans. More generally, the President explained tax reform to the American public on the basis that special tax breaks provided to some taxpayers require other taxpayers to pay more tax. Neither the President, nor Treasury, nor Congress suggested that income tax rates were too high because regressive excise taxes on consumer products were too low. On the contrary, original Treasury studies considered by the last Congress, rejected consumption taxes, like the excise taxes proposed here.

Furthermore, the excise tax increase proposals would effectively take away money that was promised taxpayers through a reduction in income taxes. This approach undercuts the substantial tax relief promised to millions of low and moderate income Americans in 1986.

The study prepared by the Congressional Budget Office in January 1987 for Senator George Mitchell shows that for families with annual incomes under $30,000, a $19 billion increase in existing excise taxes would eliminate the entire benefit of income tax reductions provided by the 1986 Tax Reform Act. The same study shows that such an increasewould cost the working poor more than double the savings they received under the 1986 Tax Reform Act.

As stated by Mr. Dennis Ross, Tax Legislative Counsel, on July 7, 1987, before this committee, "The administration believes that it is extremely important that we not undo any of the dramatic and important tax reforms that were accomplished last year."

Surely, taxpayers would regard it as an act of bad faith for Congress and the Administration to adopt a package of regressive excise tax increases which this year would take away what was given last year through tax reform.

3. Inflationary Effects on Consumers

Proposals to increase selective excise taxes on consumer products are bad economic policy, in part, because they would be inflationary, producing dramatic price increases in products on which the excise tax burden now falls so heavily. Virtually everyone, including the Treasury, believes that increased excise taxes would be passed on to consumers in the form of higher prices. Based upon the consequences of the major increase in excise taxes on cigarettes in 1983, all of the proposed increase in excise taxes on tobacco products would be passed on to consumers.

Over the first five years, the current proposal to double the tax on cigarettes would cause additional consumer expenditures of about $19 billion for cigarettes. Over the same period a current proposal to increase the tax on beer would cause additional consumer expenditures for beer of approximately $5.7 billion, equal to the entire revenue gain to the government. At retail, the initial impact of the proposal on the consumer would be a price increase of $1.60 per carton (16 cents per pack) of cigarettes and of $2.24 per case of beer. This inflationary impact would have an adverse impact on the economy as a whole and would ultimately worsen, not reduce, the deficit.

4. Injury To Farmers, Suppliers, Producers and Labor

Increases in selective excise taxes on consumer products are not only inflationary and thus damaging to consumers, but they also would severely and adversely impact producers, their labor force and shareholders, and farmers, suppliers and distributors. These increases also would have adverse impacts on the families and communities of all the workers and producers who supply not only the goods and services subject to these taxes, but also, on those untaxed goods and services that would be purchased in smaller quantities because of reductions in purchasing power brought on by the tax increases.

In the case of the tobacco tax, for example, figures derived from the Chase econometric model of the tobacco industry demonstrate that doubling the Federal excise tax would cause a loss of 28,500 American jobs, a decrease of about $110 million in sales, and 37.5 million fewer pounds of tobacco purchased. We believe these estimates are on target, since the 8-cent increase in 1983 (which doubled the federal cigarette excise tax) reduced GNP by $800 million and has caused, to date, at least a $2.5 billion loss of retail sales and lost job opportunities for 14,600 workers in tobacco manufacturing and distributing. The 1983 increase in cigarette excise taxes also resulted in annual lost sales of 29.6 million pounds of tobacco, and undoubtedly exacerbated the tobacco surplus problem, which is currently at a level of 1-1/4 billion pounds of tobacco.

Another doubling of the cigarette excise tax would cause substantial and irreparable harm to American tobacco farmers, their families, and their communities. These communities, concentrated in the Southeastern tobacco growing states, bear the brunt of the economic costs of increased excise taxes. In effect, an excise tax increase would force some of our least affluent states to subsidize the rest of the country.

5. The selected products already are heavily taxed

While the consumer price index increased about 322% from 1951 through 1986, the combined Federal, state and local cigarette tax collection increased over 602% throughout the same period. It is manifestly unfair for a substantial, disproportionate tax burden to be placed on a narrowly targeted segment of the American public to pay for deficit reductions designed to benefit the country as a whole. This is true whether the targeted segments turn out to be the farmers, suppliers, the labor force and owners of the selected producer, or the consumers of its product.

6. Federal excise tax increases would impair a revenue source used by state governments

Raising existing Federal excise taxes would impair a revenue source traditionally relied on by state and local governments for a substantial part of their revenues. Federal, state and local excise tax collections on cigarettes currently amount to $9.17 billion annually. In addition to the 16-cent-per-pack Federal excise tax, the average combined state and local tax is over 21 cents, so combined taxes average over 37 cents per pack.

The National Governors' Association has already published a position paper critical of proposals to raise Federal excise taxes. The National Conference of State Legislatures forecasts a $257.3 million loss to the states in fiscal 1988 and nearly $1.3 billion loss over five years if higher federal excise taxes on cigarettes are enacted.

7. Additional Points

User Fee

In a June, 1987 report, Office of Management and Budget Director James Miller suggested several inappropriate criteria as excuses for selectively raising excise taxes.

In particular, he asserted that it is appropriate to increase the rate of excise tax as an "abuser fee" to pay for social costs associated with the use of that product.

Although he indicated that tobacco products and alcoholic beverages fall in this category, producing what he called "negative externalities", he provided no usable criteria for measurement of the cost to society for these or any other products. He implied that only a few products and activities fall in this category.

We contest the notion that beer and tobacco create any scientifically measurable social costs. They do create enormous economic and pleasurable benefits for 80 million beer drinkers and 60 million smokers. According to a January, 1986 study by Chase Econometrics***, in 1983 the tobacco industry generated 710,000 jobs directly and another 1.6 million indirectly. It accounted for $31.5 billion of GNP in 1983 and tax revenues in excess of $13 billion. The beer industry directly employs nearly 190,000 people and creates an even greater number of indirect jobs.

Moreover, there are few, if any, products and activities for which one cannot assert social costs. This type of so-called test does not advance true tax reform. One of the purposes of tax reform was to eliminate the subjective evaluations of different industries. Such evaluations have encumbered the tax code with numerous exceptions, to the detriment of free economic decision making.

From a broader perspective, the viewpoints expressed by Mr. Miller are totally inconsistent with the position expressed many times by President Reagan that consumer choices should be determined by the market place and not by the government.

Prior Legislative History

In 1965 Congress wisely recognized the undesirability of imposing selective excise taxes on consumer products as a fair way of raising revenue. In the Ways and Means Committee Report accompanying the 1965 legislation which repealed a panoply of selective excise taxes burdening consumer products, the Committee condemned their use as a "source of undesirable discrimination." The Committee determined that "these selective excise taxes tend to reduce sales and therefore reduce incomes and jobs in the industries which produce the taxed goods. In these ways selective excise taxation results in arbitrary and undesirable distortions in the allocation of resources and in this manner interferes with the free play of competitive markets." The Committee further concluded that excise taxes "are regressive in their impact, absorbing a larger share of the income of low-income persons than of those with higher incomes."

The Committee's unequivocal and accurate criticisms of selective excise taxes are as appropriate today as they were in 1965. Unlike some of the targeted products, the deficiencies of selective excise taxes on consumer products do not improve with age.

II. SPECIAL PROBLEMS WITH PROPOSALS FOR INDEXING SELECTIVE EXCISE TAXES

One technique proposed as a means of raising excise taxes is particularly questionable. Indexing federal excise taxes on tobacco, alcohol and fuels, in addition to creating many technical problems in application, would heighten all the previously described negative consequences to consumers and producers. Indexing federal excise tax rates on alcohol, tobacco products and fuels in fact is simply a means to increase excise taxes on selected consumer products. Accordingly, the proposal suffers from all of the infirmities previously described in this statement, and for that reason alone should be rejected by this committee. Moreover, tying the rate of tax on these selected items to future consumer price increases would heighten the adverse features inherent in selective excise taxes on consumer products. The price adjustment feature would tend to make the regressive and economically distortive aspects of the tax permanent, rather than soften with time. If tax revenues are to be increased to reduce the deficit, the burden of the additional taxes should be as widely distributed as possible. The proposal calls upon the producers and consumers of the taxed products to bear a hugely disproportionate share of the increased tax burden.

It has been suggested that indexing the excise tax rates on these products is consistent with the concept of indexing income tax rate brackets and depreciation rates. However, this correlation does not exist.

The effect of indexing income tax rate brackets and depreciation is to prevent automatic increases in federal revenues (and consequent increases in government spending) with each round of inflation. The effect of the proposal to index excise taxes is to ensure automatic increases in federal revenues (and consequent increases in government spending) with each round of inflation.

***A Quantitative Analysis of the Packwood Tax Reform Proposal, Chase Econometrics, April 10, 1986.

One of the principal arguments for income tax rate bracket indexing is that the government should not benefit from increased revenues caused by inflation that the government has, at least in part, created. Bracket indexing addresses another concern that automatic increases in federal revenue create automatic increases in government spending. Thus, indexing federal excise taxes to price increases would be the opposite of indexing income rate brackets and depreciation. In fact, the reasons advanced in support of indexing income rate brackets and depreciation constitute strong grounds for not indexing excise tax rates.

It would also be unfair to index the rate of the manufacturing excise tax on tobacco products and alcoholic beverages to consumer price levels of such products, since a substantial portion of the consumer prices of such products is attributable to the Federal excise tax and various state taxes.

When non-retail taxes are increased, Congress imposes "floor stocks taxes" on goods taxed at the old rate which have not yet been sold at retail. The purpose is to prevent tax avoidance and unfair competition by wholesalers and retailers who might stock up on the product before the effective date of the tax increase. With indexation, if this type of tax avoidance is to be prevented, a floor stocks tax will have to be imposed frequently, each time the tax is increased. Since floor stocks taxes involve wholesalers and retailers (not the smaller groups of manufacturers and importers), they are difficult to administer. Thus, indexing will result in either the imposition of a procedurally troublesome floor stocks tax or an opportunity for avoidance and unfair competition each time the rate is changed.

Most important, the indexing proposal would remove from Congress its legislative prerogative to review all appropriate factors before increasing tax rates. Automatic tax increases are a poor substitute for Congressional determinations.

III. SUMMARY

We at Philip Morris Companies understand what increasing selective excise taxes imposed on certain consumer products can mean. Our company is among the world's largest manufacturers and marketers of tobacco, beer, and food products. In addition to being the largest producer of cigarettes in the United States with additional markets in more than 170 countries and territories, Philip Morris includes General Foods Corporation and the Miller Brewing Company. 1986 operating revenues were $25.4 billion.

Overall, beer and tobacco create benefits for 80 million beer drinkers and 60 million smokers. The tobacco industry accounted for $31.5 billion of GNP in 1983 and tax revenues in excess of $13 billion. The tobacco industry generates 710,000 jobs directly and another 1.6 million indirectly. The beer industry directly employs nearly 190,000 people and creates an even greater number of indirect jobs. These employment figures include a quarter of a million farm families who produce the 1.3 billion pounds of tobacco and the 7.6 billion pounds of barley, hops, corn and rice used in these industries each year.

Like other major worldwide suppliers of consumer products, we at Philip Morris Companies have in the past paid, and are presently paying, substantial sums in Federal, state, local and foreign taxes. We are proud of the contributions we have made through our tax payments to the fiscal integrity of governments, and through our business activities generally to a strong economy. We were early and vigorous supporters of tax reform proposals designed to yield a fair, broad-based, and revenue effective tax system. We remain committed to such principles. We hope that last year's successes toward achieving such a system will not be quickly put aside this year or at any other time in the quest for needed tax revenues.

The tens of millions of voters who would have to pay for deficit reduction through substantial increases in excise taxes on products they consume can be expected to notice the size of excise tax increases such as those some have proposed. The number of individuals paying these increased prices would be very large, including 80 million consumers of beer and 60 million consumers of tobacco products. And the working poor will be aware that the promise of tax reform has been taken away from them.

For the reasons stated above, we urge the Committee to formulate deficit reduction proposals in accordance with principles designed for economic neutrality and growth. We urge the Committee to reject any proposals to increase existing excise taxes on consumer products, regardless of whether the increase would be accomplished directly through specific increases or indexing or indirectly by other means.

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Testimony of The
Texas Association of Mexican American
Chambers of Commerce
Submitted to the
Committee on Ways & Means
U.S. House of Representatives
July 15, 1987

Mr. Chairman and distinguished members of the committee, my name is Pete Martinez, and I am President of the Texas Association of Mexican American Chambers of Commerce. We represent 5,000 Mexican American businesspeople in Texas, the state with the nation's second largest Hispanic population, comprising some three million individuals. Mexican Americans constitute the majority of Hispanic Americans; more than one in twenty Americans claims to be of Mexican descent.

I am here on behalf of TAMACC to voice opposition to a specific revenue-raising proposal; namely, proposed increases in federal excise taxes. These taxes are damaging to businesses and unfair to the consumers they serve.

As with other Hispanic groups, Mexican American businesses are primarily small businesses, such as grocery stores and restaurants. These establishments are the backbone of many Hispanic communities, and contribute significantly to the local and state economic base.

Small businesses are particularly vulnerable to fluctuations in costs and revenues. Operating on narrow margins, these businesses are forced to pass along the costs of excise taxes to their customers.

Significantly, many of the items which could be affected by increased excise taxes -- beer, wine and cigarettes -- comprise important sources of income and store traffic for these businesses. Higher prices on these items can lead to loss of patronage and jobs, and the eventual closing of many small Hispanic businesses.

Excise taxes have a highly inequitable effect on the individual consumer, as well. These taxes are extremely regressive, hitting hardest those with the least ability to pay. The smaller the family budget, the larger the proportion of income paid in excise taxes. Mexican Americans and the rest of the Hispanic community, a large proportion of whom are low-income people, would be disproportionately affected by these taxes.

Mexican American businesses are a source of pride in our community. But it is a community with a host of problems -- not the least of which are high rates of poverty and unemployment among our people, not only in Texas but nationwide. The budgets of many families are strained to the breaking point. Price increases which may have very little impact on middle-and-upper-income families, can be devastating to those living close to the edge.

TAMACC objects to the levying of taxes which arbitrarily and unfairly single out small businesspeople and low-income members of our society to carry a disproportionate share of the tax burden. We are sure that Congress can find more democratic ways to solve the nation's deficit problem.

Thank you.

TEXAS PEACE OFFICERS' ASSOCIATION

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Arthur Busby
Dallas

August 17, 1987

The Hon. Dan Rostenkowski
Chairman House Ways & Means Committee
1102 Longworth House Office Bldg.
Washington, DC 20515

Dear Hon. Rostenkowski:

We would like to express our views on the proposal now before Congress to increase federal excise taxes.

We are against this proposal, excise taxes are regressive, they single out individual groups of consumers for higher taxes. Increasing the excise tax would hurt minorities and lower income groups which would bring about higher unemployment. We support our State and Sister Organization The National Black Police Association and their stand against this bill.

We hope the committee will vote to reject excise tax increases in favor of sounder more equitable methods of raising revenue.

Sincerely,

Captain L. E. Lewis

Captain Leon E. Lewis
Local President
Galveston, Texas

Unity • Efficiency • Cooperation

Identical letters were submitted by the following, all of the Texas Peace Officers' Association:

Robert Jackson, Local President, Dallas, Texas
A.V. Young, Sr., Local President, Houston, Texas

5673 Crooked Tree Ln
Milford Oh 45150
July 20 1987

Dear Chairman,

I watched some of the hearings on raising excise taxes. I want you to know that I am positively opposed to increasing any tax-even 1¢. You don't need more money, you need LESS spending. Whatever happened to the Grace Report? It had many ways to cut spending but you have made it clear Congress can't cut spending. The Lord only asked for 10% but Congress wants a minimum of 15%-28%. There is something wrong here.

Why does Congress have barbers, drycleaners, restaurants and other perks? You treat yourselves like Gods and the peasants can pay for it!

I want to repeat - I oppose any increase in any tax anywhere. Stop building roads that go nowhere or water projects-some other "pet" projects and cut-cut-cut spending. No increase in taxes Please.

Sincerely
Anna M Toolin

United Baptist Church

MIDDLE STREET • OLD TOWN, MAINE 04468

(207) 827-2024

Rev. Andrew J. Spohrer, Pastor
827-4339
Rev. Donald E. Macomber, Associate Pastor
827-4692

July 14, 1987

Dan Rostenkowski, Chairman
Ways and Means Committee
US House of Representatives Office Building
Washington, DC 20000

Dear Sir,

In reading an article in the June 29th issue of"Business Week"on taxes and the possibility of raising excise tax, I wanted to add a note of encouragement to you and your committee to continue to consider the increase in the area of beer and cigarettes particularly.

It is my observation that our country pays a high premium for the care of people who abuse these items. Having recently watched a person die from lung cancer caused by smoking for over 30 years, I am particularly convinced that these people who abuse alcohol and cigarettes ought to themselves be paying a higher share of the tab. Those who use in moderation would not be particularly hurt by increases in taxes.

Thank you very much for your efforts on our behalf.

Very sincerely,

Pastor Spohrer

Andrew Spohrer

Conservative Baptist Affiliated

"Christ died for our sins . . . He was buried . . . He rose again the third day according to the scriptures."—I CORINTHIANS 15:3,4

WCM
WORLD CONFERENCE OF MAYORS

July 9, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Rostenkowski:

The World Conference of Mayors, Inc. (WCM) is the only officially recognized international organization representing Mayors of cities, towns and villages across America and thirty-three (33) countries around the world. We currently house 1100 member Mayors who represent a combined and growing population in the billions of human beings across the globe.

When your Committee on Ways and Means and the Senate Finance Committee effectively and finally put the "Malthusian" policies to "sleep", by historically adopting new long-term growth and economic expansion policies, tax reduction notwithstanding, you made the giant leap forward for America which the whole world had patiently awaited ever since the Kennedy Administration. These new growth policies effectively establish a vast new economic determinism in the world by forging a new dynamic market-oriented policy perspective which holds out the promise of converting and transforming the five billion humans on planet earth directly into five billion consuming customers over time: the engine to drive enterprise!

The vital innovation which this historic global growth policy urgently needs at this time is found in the artful construction of effective "economic demand" configurations which efficiently supplement and support the known wants, needs and desires of the prospective five billion customers by providing them with a reliable and accumulating ability "to pay" for the purchases of goods and services demanded which will, in turn, directly spur economic growth and expansion which objective reality is continuously demanding.

In the wake of such historic brilliance, as illuminated by the shining global growth policies of the U.S., the powerful Chairman should be advised to constrain and arrest any counter-productive policy developments which could reduce the purchasing power of prospective consumers, which, in turn, would reduce or even cripple economic take-off possibilities.

1010 Massachusetts Avenue, N.W. • Suite 300 Washington, D.C. 20001 • 202/898-6339

Specifically, the current proposals to increase excise taxes would regressively harm the purchasing power of the vast majority of consumers who make up the vast working class and middle class constituency across America and would send negative institutional signals around the world which would dampen growth expectations. Taxes of any kind at this policy transition time which have the effect of reducing disposable incomes for consumers should be eliminated. Period!

In order to balance the budget Congress should seek to tax the growth in expenditures by imposing an across-the-board budget freeze. Excise taxes would exorcise the the very growth which tax reduction seeks to historically champion.

We trust that the weight of our support on this matter is not taxing on your patience and we look forward to seeing you strike a new vein of gold with some other fiscal measure which is stimulative on the demand side of national income accounting.

Very Truly Yours,

Malachi Knowles

Malachi Knowles
Director General

cc: Johnny Ford
President
World Conference of Mayors, Inc

The World Institute of
Black Communications, Inc.
Telephone (212) 586-1771 10 Columbus Circle New York, New York 10019-1285

July 24, 1987

The Honorable Dan Rostenkowski
Chairman House Ways & Means
Committee
1102 Longworth House Office Building
Washington, DC 20510

Dear Congressman Rostenkowski:

The World Institute of Black Communications is sending you this letter to express its concern on proposed legislation that would raise federal excise taxes on a variety of consumer products and services, including cigarettes, beer, wine and gasoline.

According to a recent study by the Congressional Budget office, doubling the federal cigarette tax, for example, would cost a poor family four times as much as a wealthy family as a proportion of income.

Since Blacks make up a disproportionately high number of low-income families and smokers, this legislation would impact on our community severely. Excise taxes by their very nature are discriminatory and unfair. In this case they directly adversely effect Black Americans and low income groups.

Please consider these concerns when confronted with this legislation.

Sincerely,

Joan Logue-Kinder

Joan Logue-Kinder
Co-Director

JLK:bb

Communications Excellence to Black Audiences

SECURITIES TRANSFER EXCISE TAX

STATEMENT OF THE
INVESTMENT COMPANY INSTITUTE
BEFORE THE
COMMITTEE ON WAYS AND MEANS
REGARDING REVENUE INCREASE OPTIONS
JULY 15, 1987

The Investment Company Institute ("The Institute"), the national association of the mutual fund industry, appreciates this opportunity to present its views on one of the revenue increase options currently being considered by the Committee.

The Institute's membership includes 2,086 open-end investment companies, more commonly known as mutual funds, their investment advisers and principal underwriters. The Institute also represents the unit investment trust industry. At the present time, the Institute's mutual fund members have assets of about $782 billion, accounting for approximately 90 percent of total industry assets, and have over 29 million shareholders. The unit trust members of the Institute sponsor trusts in which over $100 billion have been deposited, accounting for over 90 percent of total industry deposits.

The Securities Transaction Excise Tax

One of the proposed revenue increase options under current consideration by the Committee is a securities transaction excise tax (STET). The Institute urges the Committee to reject the STET proposal because of its likely harm to the U.S. securities markets and its particularly adverse impact on investment companies.

The economic impact of the STET has been described by Congressional Research Service ("CRS") in a study dated March 31, 1987 (Report No. 87-2785). In that paper, the CRS concludes that the proposed STET could cause the trading volume on the securities markets to drop by as much as 12.7 percent and would result in an average decrease in stock prices of approximately 9.3 percent. As noted in the testimony of the Securities Industry Association (SIA) before this Committee, the STET's impact on the U.S. securities markets and U.S. securities prices could put the domestic securities markets at a significant disadvantage vis a vis foreign securities markets. In addition, the efficiency of the capital markets and capital formation would be adversely affected.

For the mutual fund and unit trust industries the impact of the STET could be devastating. In the case of money market mutual funds, the application of a double STET on both portfolio transactions of the fund and transactions in the shares of the fund or even a single level STET could have particularly serious competitive consequences. As noted in a memorandum written by David Brockway regarding the STET, the bank money market deposit account was expressly created by Congress as an investment vehicle intended to be competitive with money market mutual funds. Thus, the application of a double or even single level of a STET to a money market fund without parallel application to a money market deposit account would significantly disrupt the close competitive balance between these two investment vehicles. Moreover, the application of the STET to purchases and redemptions of money market fund shares would be particularly significant to the continued viability of such funds, because money market funds are characterized by their rapid turnover of amounts held in shareholder accounts. There is approximately a 350 percent annual asset turnover rate for these funds. In many cases these are purchases and redemptions by the same shareholders. The imposition of the STET on each purchase and redemption of money market fund shares would seriously disadvantage this investment product if the same tax burden is not applied to deposits and withdrawals from bank money market deposit accounts.

In addition to the unique competitive problems of money market mutual funds, all investment companies would be unfairly disadvantaged by a double layer of tax on both transactions involving the company's portfolio and transactions in the shares or units of the company. Such a double layer of taxation would be contrary to accepted tax policy and, in its implementation, extremely damaging from a competitive perspective. In general, a double layer of STET taxation is inconsistent with Subchapter M of the Code and the income tax principles applicable to regulated investment companies (RICs).

While the Joint Committee pamphlet describing the revenue raising options and the Brockway memorandum recognize the need for special rules to alleviate the double layer of tax, the exact formulation of these special rules could be extremely complex. Presumably, a system developed to eliminate the burden of a double layer STET would start with the principle that the investment company investor should be put in roughly the same position for purposes of the STET as the direct investor in securities. However, this formulation may be difficult to apply if certain securities, such as commercial paper, bank certificates of deposit or municipal obligations are treated as exempt from the STET. To the extent that a fund is invested partially in obligations exempt from the STET and partially in non-exempt obligations, it becomes more difficult to construct an integrated system of taxation which does not impose a double layer of taxation. Similar problems arise in the case of exemptions from the STET for specific types of shareholders, such as pension plans, IRAs or other tax-exempt entities.

Another issue that must be considered in developing an integrated STET system which does not unfairly burden investment companies relates to the distribution of the shares or units of such companies. If an underwriter buys shares of a fund for subsequent resale to a dealer who buys the shares for resale to retail customers, multiple levels of the STET would be imposed before the shares or units are actually acquired by the investor.

Conclusion

The Institute believes that the proposed STET would be damaging to the U.S. securities markets and economy because of its predicted increase in the cost of securities transactions and decrease in the value of securities. The STET could be particularly damaging to investment companies such as mutual funds and unit trusts unless a workable system of integration is developed to alleviate the potential burden of double taxation. If, however, the Committee decides to give further consideration to the implementation of the STET, the Institute offers to work with the staff of the Committee to develop an appropriate system of integration.

VIEWPOINT OF THE PHILADELPHIA STOCK EXCHANGE, INC.,
NICHOLAS A. GIORDANO, PRESIDENT
ON THE SECURITIES TRANSFER EXCISE TAX

The Philadelphia Stock Exchange opposes the securities transfer excise tax.

The major reasons for this opposition are that the tax would decrease liquidity in the securities, options and futures markets, reduce the ability of market participants to accomplish risk-shifting, create an incentive to have transactions conducted in foreign markets and increase the cost of capital in the United States. In addition, such a tax would violate two goals of the recent tax reform legislation.

1. Decreased Liquidity

A securities transfer excise tax, by significantly increasing the cost of buying and selling securities, will reduce the volume of trading. Potential sellers will be discouraged from selling because the tax will reduce their net proceeds from the sale. Although selling a currently held security and buying another might increase the expected rate of return, the increased transaction costs associated with the proposed tax could potentially exceed the gain. This will result in inefficient resource allocation. Further, sellers would be "locked in" and the result would put upward pressure on prices and reduce the volume of transactions. Potential buyers will also be discouraged from purchasing securities because they will eventually become sellers of the securities they buy. The estimated amount of taxes to be paid on all future transfers of that security will reduce the value of that security to the purchaser. This will depress purchase prices and lower the volume of transactions.

The reduction of liquidity in the markets may cause security prices to decrease further because of the reduction in ability to sell the securities quickly at a fair price. The reduced number of potential buyers and sellers in the market could increase the volatility of security prices due to the lower volume of trading in each security. Investing in securities will be made riskier and investment will be discouraged.

2. Impairment of Risk-Shifting Function

A securities transfer excise tax, by decreasing trading volume and liquidity, will impair the ability of participants in options and futures markets to shift risk from those who do not wish to bear risk to those willing to do so. The principal purpose of the options and futures markets is to provide a mechanism for risk-shifting and risk absorption. An investor can limit the risk that the price of a particular security will fall by buying an option to sell that security at a fixed price. This risk-shifting capability is critical for both individual investors and corporate money management. A high volume of short-term trading by market making specialists facilitates the provision of this function by mediating disparities in buying and selling interests. Moreover, when customer demand is uneven, market making specialists enable the markets to continue to function as efficient risk-shifting mechanisms.

3. Shift of Transactions to Foreign Exchanges - Market Dislocation and Loss of Revenue

A securities transfer excise tax, by providing an incentive to conduct transactions on foreign securities exchanges, will undermine the ability of the United States to compete internationally. The increase in the cost of engaging in securities transactions in the United States will drive some transactions and some securities issues to markets or exchanges in foreign countries. While a few other countries impose a securities transfer tax, their laws generally contain other favorable tax provisions not present in the United States. Thus, market shopping will encompass those markets because they will more favorably compare with United States markets if the tax is imposed here. To the extent other countries impose a securities transfer tax, the development of United States securities markets has been encouraged. The imposition of a securities transfer tax in this country will result in market dislocations which reduce these benefits.

Further, the shift of transactions that presently occur on exchanges and in markets in the United States will undermine the revenue raising goal of the tax. To the extent market participants avoid the tax by moving transactions to foreign exchanges, United States competitiveness will be undermined to no avail.

4. Increase in the Cost of Capital

A securities transfer excise tax, by necessitating an increase in pre-tax yields on securities issued after the effective date, will increase the cost of capital. The expected return on a security will be diminished by the imposition of a securities transfer tax because investors will have to pay a tax upon sale in the future. The price of a security will therefore decline by an amount reflecting the increase in taxes that will have to be paid on all future transactions in the security. To the extent companies raise capital by issuing new securities, this decline in prices will increase their cost of capital. The cost of capital will also be increased when investors demand a higher return on a security to compensate for a loss of liquidity or greater price volatility. The tax will not only burden and tend to discourage investment, but the increase in the cost of capital will provide an incentive to invest abroad or in investments not subject to the tax.

5. Goals of Tax Reform Violated

Further, the proposed tax violates two prominent goals of tax reform. It is not based on ability to pay and is not neutral in that it will distort investment and portfolio decisions.

In addition to the major impacts above that affect markets globally, the impact upon the community which provides the market making capability will be overwhelming. The harshest effect of the tax will be on those market makers and specialists who engage in numerous short-term trades. Because they look for their income to the profit to be made on the spread and do not hold the securities in order to derive yield, to impose a securities transfer tax would be equivalent to imposing a second income tax upon them. Further, because the tax will be imposed even if the market maker earns no income or sustains a loss on a transaction, the concept is even more outrageous. Because the transactions themselves are their means of deriving income, to impose such a tax would be confiscatory. To survive financially, the market makers' only economically feasible response to the tax would be to pass the cost on to those who purchase from them. These purchasers in turn will be required to bear a two-level tax. They will pay the mark up passed on by the market maker which represents the cost of the tax to him, and they will pay a second transfer tax when they sell the security in the future. As a result, the tax is harshly discriminatory and not based on ability to pay and therefore violates a goal of tax reform.

If the proposed tax is enacted, it will distort investment and portfolio decisions. A tax that applies only to securities investment is discriminatory. By lowering the return on securities, it encourages investors to seek out other investment media. This in turn discourages capital formation. Moreover, if the securities transfer tax itself is not carefully drafted it could discriminate among securities and encourage investment in some while discouraging investment in others. Taxes will become a major factor in portfolio investment strategies. This violates the second goal of tax reform, that of achieving neutrality.

The bias could be eliminated by taxing all investments and savings vehicles, but this would achieve neutrality at the expense of low and middle-income taxpayers.

INDIVIDUAL AND CORPORATE TAX RATES AND SURTAXES

COMPUTER AND BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION

WRITTEN STATEMENT ON REVENUE RAISING OPTIONS

The Computer and Business Equipment Manufacturers Association (CBEMA) represents the leading edge of American high technology companies in computers, business equipment and telecommunications. Its members had combined sales of more than $186 billion in 1986, representing 4.3% of our nation's gross national product. They employ more than 1.2 million people in the United States. In 1986, the U.S. computer and business equipment industry had exports of $17.120 billion and imports of $14.936 billion. The trade surplus was $2.184 billion.

Preserving 1986 Act Tax Rates

In 1985 and 1986, CBEMA consistently supported the tax reform efforts of both the House and the Senate. CBEMA believed then that lowering tax rates and eliminating preferences would establish greater equity -- a level playing field -- for all taxpayers and would help remove tax considerations from business decisions. These changes in turn would make U.S. companies more efficient and competitive.

We stood by these beliefs even though they meant giving up numerous tax incentives that were extremely important to CBEMA members and their customers. The 1986 Act increased corporate taxes by $120 billion over 5 years overall; a large number of CBEMA members contributed their share to that tax increase. In particular, the investment credit had served as an efficient incentive for the purchase of state-of-the-art equipment like that manufactured by CBEMA members.

CBEMA believes now as strongly as it did in 1985 and 1986 that tax reform is important to the long-run vitality and competitiveness of the U.S. economy. Thus, we strongly urge that any revenue-raising legislation considered in 1987 not change the substantive decisions made in the 1986 Act. Most importantly, the tax rates established in tax reform should not be changed in anyway. We oppose:

-- proposals for permanent increases in the 1986 Act rates;

-- proposals to postpone those rates for one or more years; and

-- proposals to impose temporary surtaxes on top of the tax reform tax rates.

All of these proposals fundamentally revise the basic framework of tax reform.

If tax rates generally are permitted to be increased -- no matter how temporarily -- business and investment decisions will again be increasingly affected by taxes. Political pressures for new tax incentive provisions will also grow. Once the barriers to change have been lowered, tax reform will inevitably unravel.

Increasing corporate tax rates after the enactment of tax reform is particularly unwise. As was mentioned above, total corporate taxes were increased $120 billion over 5 years under the 1986 Act. The 1986 Act, in fact, included the third major corporate tax increase since 1982. After the 1986 Act, corporate tax burdens overall are as high or higher than they have been at any time in the recent past -- even in the high inflation days of the late-1970s and early 1980s. Further tax increases on U.S. corporations will clearly damage economic growth and our competitiveness.

Further, most corporate tax increase provisions in the 1986 Act -- the repeal of the investment credit, the super-full absorption inventory rules, and the alternative minimum tax -- were effective beginning in 1987. But corporate tax rates will not be reduced to the 34% rate promised in tax reform until 1988. If starting with 1988 the 34% rate is increased or postponed, the Congress will have broken its compact with corporate taxpayers. A message will be sent that taxpayers should not again consider supporting legislation that eliminates existing tax benefits for a promise of fair future treatment. We would be back to pre-tax reform business as usual.

For all these reasons, CBEMA believes that deficit reduction efforts should not be aimed at raising revenue by changing the 1986 tax reforms. Other methods of reducing the deficit -- particularly further spending cuts -- should be undertaken instead.

Retaining the Present Law Taxation of Exports

In addition to retaining the tax rates enacted last year, CBEMA believes that the decisions made in tax reform to retain the prior law treatment of export-related tax provisions should be continued. Last year, Congress realized that our record trade deficits made it imperative that tax reform not affect the competitiveness of U.S. exporters. For this reason, both FSC benefits and the rule permitting taxpayers to treat one-half of export income as foreign source income were retained.

These trade policy considerations remain as important today as they did in 1986. Our trade deficit is still near a historical high. The competitiveness of U.S. exports in many markets is open to question. For these reasons, the Congress is currently considering a strong trade bill. The goals sought to be attained in that legislation will be hindered by any Congressional actions that increase the taxes of U.S. exporters.

The source rule provision, in particular, serves as an effective incentive for a large number of U.S. exporters. Its effectiveness should not be compromised in any effort to raise revenues.

Conclusion

In summary, tax reform is just beginning to take effect. The goals sought by tax reform -- that low rates and reduced preferences will lead to a level playing field, more efficient business and investment decisions and improved competitiveness -- are sound. But they cannot be achieved overnight. If tax reform is changed even before its key provisions are fully effective, its goals will be lost.

We urge that revenue raising not change the basic substantive decisions made in the 1986 Act. In particular, the 1988 tax rate reductions should not be cut back or deferred directly or indirectly on a temporary or permanent basis. Also, the present law taxation of U.S. exports should be retained.

K MART CORPORATION
INTERNATIONAL HEADQUARTERS
3100 WEST BIG BEAVER RD.
TROY, MICHIGAN 48084

A. ROBERT STEVENSON
VICE PRESIDENT
GOVERNMENT & PUBLIC
RELATIONS

August 21, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington. D.C. 20515

Dear Mr. Chairman:

On behalf of K mart Corporation, I wish to express our support for your position opposing any increase in individual and corporate income tax rates. The reduced income tax rates, and base broadening provisions enacted as part of the Tax Reform Act of 1986 should not be repealed in order to raise revenue.

Income taxes are a major issue for K mart Corporation, the second largest retailer in the world. With 1986 sales in excess of $23.8 billion and over 320,000 employees, individual and corporate income tax burdens are of vital concern. Indeed, with over 3,800 store locations throughout the United States, we are vitally interested in the overall economic status of our many customers.

Like others in the retail community, K mart Corporation was an early, active supporter of tax reform efforts that included provisions to both reduced tax rates, and broaden the tax base. K mart Corporation has traditionally paid a high effective tax rate, while other nonretailing businesses have paid lesser income taxes, because of various special provisions included in the tax law prior to 1986. Therefore, K mart Corporation welcomed enactment of the Tax Reform Act of 1986, primarily because of the reduced maximum corporate income tax rate, and the attempt to even the tax burden among all businesses. A decreased corporate income tax burden for K mart Corporation better allows us to provide the goods the American consumer wants at the best price.

Our customers work hard to have the dollars available to them to enjoy a quality life style. The American consumer does not want to pay a disproportionate amount of their hard earned dollars in income taxes to the federal government. Individual income tax rates should remain at the lower levels enacted as part of the Tax Reform Act of 1986, in order to actively encourage participation by all in the American economic system.

Enactment of the Tax Reform Act of 1986 was a landmark on the road to make the American income tax system more equitable for all individuals and businesses. The reduced individual and corporate tax rates, along with the base broadening provisions, should not be rescinded as a short-term means of raising revenue. We are pleased that you have publicly expressed your opposition to raising income tax rates, and hope that Congress will embrace your position in not altering these cornerstone provisions of the Tax Reform Act of 1986.

Sincerely,

A. ROBERT STEVENSON

Rax.
RESTAURANTS, INC.

July 27, 1987

The Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Re: Revenue Raising Through
Income Tax Increase

Dear Representative Rostenkowski:

Rax Restaurants, Inc. is a Columbus, Ohio based food service corporation, having 514 company and franchised restaurant locations throughout the United States. Of this number, 158 of the restaurants are company owned, providing employment opportunities to more than 5,000 taxpayers.

As Chairman and Chief Executive Officer of Rax, I urge you, during consideration of various revenue raising measures designed to reduce the government deficit, to refrain from any tampering with the rate schedules established for corporate and individual taxpayers in the 1986 Tax Reform Act. Simply stated, I ask that you reject strenuously any proposal that the rate schedules for either corporate or individual taxpayers established in the 1986 Tax Reform Act be delayed or increased, either directly or by some form of surtax. Any form of tampering with the rates would be tantamount to a breach of the promise the Congress made to the American people last year.

The new low tax rates established last year were in response to a demand of the American people to achieve true tax simplification. In response to that demand, many American taxpayers, both corporate and individual, supported major changes and repeals of provisions, deductions, exemptions, and credits which were embodied in the Tax Code for years. In the past, we in the restaurant industry, through our affiliation with numerous trade associations, supported the legislation which became the 1986 Tax Reform Act.

Both the American people and their representatives acknowledged that the tax laws were both unfair and inefficient and that major decisions involving investment and capital expenditure were being motivated by tax policy rather than economic judgment. Through its efforts in broadening the tax base and lowering rates, the United States Congress established a course designed to cure these inequities. Should either the rate schedules be increased or delayed or a surtax be added, Congress will only undermine the basic purpose of tax reform and return to the prior policy of taxation -- a system flawed by unfairness and marred by inefficiencies.

Very truly yours,

RAX RESTAURANTS, INC.

J. Pat Ross
Chief Executive Officer and
Chairman of the Board of Directors

INTEREST DEDUCTION ON HOME EQUITY LOANS

American Financial Services Association

1101 Fourteenth St., N.W.
Washington, D.C.
20005

Robert B. Evans
President

(202) 289-0400

July 21, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Recently your Committee, in conjunction with the Joint Committee on Taxation, released a report entitled, "Possible Options To Raise Revenues". One option was to limit or, in some cases, deny altogether the continued deductibility of interest on home equity loans. The American Financial Services Association (AFSA)* strongly opposes this option.

Last year's Tax Reform Act left home equity loans intact as an acceptable method of liquifying assets for home improvement, college education and medical expenses. Interest on such loans continues to qualify for deduction on the same basis as would purchase money mortgage interest.

In addition, as a compromise, and by way of limiting the deductibility of interest on loans secured by inflation-added home value, all homeowners were permitted to continue deducting interest on loans for other purposes only in an amount not exceeding the original or adjusted cost basis for the residence. Thus, an element of parity (cost basis) was retained for all homeowners; inflation-adjusted values would be unavailable for such other loans, and neither new or long-term homeowners would be advantaged over the other.

The element of parity would be undone by current options proposals. Existing homeowners could not access equity values up to their cost basis for any purpose, but a current buyer of a residence of equal value could mortgage it to the hilt and deduct all interest. Clearly, savings or investments that might otherwise have been devoted to the residence acquisition can thus be retained, while the cost of carrying them (a larger mortgage) remains tax deductible.

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* AFSA is the nation's largest trade association representing nonbank providers of consumer financial services. Organized in 1916, AFSA represents a diversified group of companies ranging from independently-owned consumer finance offices to the nation's largest financial services, retail and automobile companies.

Now the Ways and Means Committee options paper asserts that this would cure discrimination by placing new home buyers (who have little equity) on a par with long-term owners (who presumably have lots of equity). But it is the current home buyer - who may only be relocating, or trading up, or down, etc. - who would be advantaged by being able to mortgage up to current value (cost) while the longer-term owner won't even be able to access equity equal to his original or adjusted basis, let alone current market value.

The present law is better balanced and more equitable in its impact on all classes of homeowners. We respectfully urge that this element of fairness be retained.

AFSA members provide 20% of the nation's home equity loans. We are proud of our member companies' two decades long record of responsible second mortgage lending. For example, data show that the second mortgage portfolios of our members have lower bad debt ratios and foreclosure rates than those reported by the Federal Home Loan Bank Board for first mortgages.

Sixty percent of the direct loan related assets of AFSA members are secured by second mortgages. In these proposals, they face the very real prospect of lower loan volume, lower productivity (with attendant layoffs) and lessened profitability. All of these events have negative revenue implications not only for our members, but the U.S. Treasury as well.

We urge you to retain the home mortgage interest deduction for homeowners as presently constituted.

Sincerely,

Robert B. Evans
President

John K. Avolis
308 Wharton St.
Washington, NC 27889
August 2, 1987

House Ways and Means Committee
Chairman Dan Rostenkowski
U.S. House of Representatives
Washington D.C. 21515

Dear Mr. Rostenkowski:

I was very surprised to learn of Senator John Danforth's (R - Missouri) proposition S. 624, now before the U.S. Senate and the U.S. House of Representatives, which would eliminate the tax deduction of interest on boat loans. I write this letter in strong objection to this proposition.

It appears that Senator Danforth's proposition calls for the elimination of interest for boats which the IRS qualifies as dwelling units (berths, head, and galley required) while leaving the interest deduction for other such "second homes" as villas, condominiums, single-family homes, and even larger on-the-road recreational vehicles in tact. There are several points which I would like to stress about owning a boat verses owning one of the above alternatives and ask that you consider them when analysing the contents and ramifications of S. 624.

Firstly, associated with owning a boat are several expenses that in no way are tax deductible. Berthing slip rental, insurance, maintenance, registration, documentation, and fuel often represent 40 - 60% of the expense of owning a boat. Secondly, typical marine loans are written for much shorter durations than conventional home mortgages thus reducing the total interest deduction. With the same monthly obligation, I could purchase a "second home," which is not being scrutinized at this time, and generate a far larger tax deduction per dollar invested. My point is that boat owners are realizing a far less tax advantage than more traditional "second home" owners. Thirdly, owning a boat does not offer the owner the security of increasing equity over time as owning a condo or other second home does. It is a known fact that a boat's value decreases from the day it is taken from the broker's lot until the day it is decommisioned. These three points clearly establish the fact that owning a boat is not the best alternative when one is trying to lessen tax burdens or increase wealth. Yet, it represents a sport and hobby in which many people sacrifice a lot to participate.

Although I am for doing everything possible to decrease the national deficit, I do not agree with doing so by singling out one group, such as boat owners, while leaving other groups, traditional second home owners, untouched. I do not know that this singling out is resulting from the thoughts that sailors and boat owners are "rich," but if so, it is being done under false pretenses. Speaking for myself and my wife, we have sacrificed much, including other more tax-advantaged investments, to purchase our boat - our second home.

I respectfully ask that you reject Senator Danforth's proposition S. 624 in hopes of finding a better way to generate more tax revenue which would treat all "second home" owners equally.

Sincerely

John K. Avolis

John K. Avolis

Barry W. Blum
4320 Baker Lane 18B
Reno,Nv, 89509

August 2, 1987

Honorables Dan Rostenkowski
and John J Duncan
Committee of Ways and Means
United States House of Representatives
Washington,D.C. 20515

Dear Sirs,

There is an old saying that foes, "nothing is as seductive as a bad idea who's time has come". For this reason, I urge you to loudly oppose any measure that would change the present tax law which exempts interest on loans secured by real estate from taxes.

This measure is unfair because purchasers of homes would be able to use the full deduction, whereas current users of the home equity deduction would be limited or eliminated.

Not only would this action effect others who are home owners, but in the future it will effect myself as well as a future home owner.

I am presently employed in the Financial Service industry, and this measure would have a terrible effect on this industry, as well as our customers means of borrowing, of course borrowing keeps the cash flow going in this country which allows for a good economy. It will affect the economy, hurt profitability and reduce job opportunities.

Thanks for you time with this matter, I hope that you will take it with serious consideration. Please keep me up to date on what happens with this issue.

Sincerely

Barry w. Bl

Barry W. Blum

Similar letter was submitted by the following:

Mr. John Kaul, St. Paul Minnesota

4947 Green Valley Road
Minnetonka, MN 55345
August 7, 1987

The Honorable Dan Rostenkowski
Committee of Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Sir:

I am writing to oppose the proposal that is now being considered before the House Ways and Means Committee concerning the deductibility of loans based on home equity.

Most homeowners depend on this deductibility and will not give it up happily. The measure is unfair because purchasers of homes would be able to use the full deduction, whereas current users of home equity would have this deduction limited or eliminated. This measure will affect the economy adversely.

I urge you to move quickly to kill such a proposal.

Sincerely,

Carolyn K. Brower

Carolyn K. Brower

CREDITHRIFT
FINANCIAL MANAGEMENT CORPORATION

601 N.W. Second Street, P.O. Box 59, Evansville, Indiana 47701 • Telephone: (812) 424-8031

August 13, 1987

The Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Rostenkowski:

I understand the House Ways and Means Committee is considering a list of possible revenue raising options. Of particular concern to me, is the option of restricting or eliminating the deductibility of home equity lending interest.

Last year Congress passed the Tax Reform Act of 1986 which addressed home equity lending. Your Committee courageously drafted this major piece of legislation to lower the tax burden on individuals and to encourage savings. In this measure, deductibility of home equity loans was limited to those for home improvement, college education and medical expenses. This was done in an effort to help home owners liquefy their assets in time of financial need.

Home ownership is the most prominent form of savings for American families. To further limit or eliminate their ability to deduct the interest on real estate secured loans in time of financial need creates an unnecessary burden.

My Company, CREDITHRIFT of America, Inc., has provided a quality product to meet the needs of home owners. We are currently serving the financial needs of thousands of families through our home equity lending program. We have also made every effort to promote the proper use of such loans, and to educate consumers about the product.

I urge you to retain the current deductibility of home equity lending interest contained in the Tax Reform Act of 1986.

Sincerely,

Bill L. Phifer
Bill L. Phifer
Vice President Public Affairs

Similar or identical letters were submitted by the following:

Gibraltar Money Center, Inc., Mr. William P. Garland, Senior Vice President, San Diego, California
Mellon Financial Services, Mr. Rick A. Draper, Beaverton, Oregon
Mellon Financial Services, Ms. Judi C. Hanson, Manager, Chicago, Illinois
Mellon Financial Services, Mr. Michael L. McCord, Beaverton, Oregon
Security Pacific Finance Money Center, Inc., Mr. Gordon Frazier, Branch Manger, Sioux City, Iowa

August 4, 1987

Thomas E. Dwyer
28 Keethler Drive
Westerville, OH 43081

The Honorable Dan Rostenkowski
Committee of Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Honorable Dan Rostenkowski:

I strongly oppose any change in the tax law which allows home owners to deduct the interest if the loan is secured by real estate.

The measure is unfair because purchasers of homes would be able to use the full deduction, whereas current users of the home equity deduction would be limited or eliminated.

This affects me personally.

This measure will affect the economy, hurt profitability and reduce job opportunities.

This is a very significant change in a system which has been in effect for many years. Congress should think long and hard before it changes something which has such wide acceptance with the public. I believe that any such change would prove so unpopular that it would have to be repealed within six months.

Thanks for your consideration.

Sincerely,

Thomas E Dwyer
Thomas E. Dwyer

P.S. Please let me know what happens and how you voted on this issue.

Similar or identical letters were submitted by the following:

Mr. A. D. Harmon, Westerville, Ohio
Ms. S. A. Linnabary, Sunbury, Ohio
Mr. Joseph F. McCarthy, Shorewood, Minnesota
Mr. Jeffrey A. Schactman, Minnetonka, Minnesota
Mr. T. S. Simon, Columbus, Ohio

Lisa Ferriss
104 Breton Dr.
Lafayette, LA 70508

July 31, 1987

The Honorable Dan Rostenkowski
Committee of Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Honorable Dan Rostenkowski,

I strongly oppose any change in the tax law which allows home owners to deduct the interest if the loan is secured by real estate.

This is a very significant change in a system which has been in effect for many years. Congress should think long and hard before it changes something which has such wide acceptance with the public. I believe that any such change would prove so unpopular that it would have to be repealed within six months.

Thanks for your consideration.

Sincerely,

Lisa H. Ferriss

P.S. Please let me know what happens and how you voted on this issue.

First Union
Home Equity Corporation
CONS-14
Charlotte, North Carolina 28288
704 331-6598

James E. Maynor
President

July 20, 1987

The Honorable Dan Rostenkowski
Chairman
Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I am aware that your committee is currently investigating numerous ways to increase tax revenues, one of which would limit the deductibility of interest on home equity loans.

Since the introduction of the new tax law, millions of homeowners have applied for and secured home equity loans. A substantial number of these homeowners made this very important decision based upon the changes in last year's tax bill. Additionally, many financial institutions have spent millions of dollars developing programs designed to meet these homeowners' needs.

To change the rules again would seem unfair to these millions of taxpayers who, in good faith, have undertaken the time and expense of applying for home equity loans. Last year's tax bill encourages homeownership while putting in reasonable limits on interest deductions.

I would ask your committee to carefully evaluate the financial, as well as psychological, impact of changing this portion of last year's tax bill. I believe any change at this point would prove counterproductive and ineffective.

Sincerely,

FIRST UNION HOME EQUITY CORPORATION

James E. Maynor
President

JEM/smw

Firstrust

Firstrust Savings Bank
Castor & Cottman Avenues
Philadelphia PA 19111
215 722 2000

July 20, 1987

The Honorable Dan Rostenkowski
Chairman
WAYS & MEANS COMMITTEE
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Mr. Chairman:

Our Association entered the Home Equity Loan business last December when it became apparent that there was a strong demand for this type of credit among our customers. We have since done a substantial business in this form and we were shocked to learn that the Congress is considering the elimination of the deductibility of the interest on these loans so shortly after having authorized it.

We understand that considerable thought and discussion went into the allowance of this deduction and it certainly creates tremendous confusion and lack of dependability on Congress' action to even be talking about this matter at this point - let alone actually enacting a change! This type of on-again, off-again legislation is extremely disruptive for business and should not be encouraged. We have established departments, employed people and engaged in substantial advertising to get this business going, and would certainly suffer to have the Congress suddenly do a turn-around.

You have been most considerate of our concerns in the past and I hope that by bringing this matter to your attention, that you will recognize the basic unfairness of an attempt to make a change at this point.

With best wishes, I remain

Sincerely yours,

Daniel B. Green

DANIEL B. GREEN
President

DBG:am

Serving our customers since 1934.

8431 Bayridge Lane
Bloomington, MN 55438
August 7, 1987

The Honorable Dan Rostenkowski
Committee of Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Sir:

Your constituents are becoming weary of having the benefits of being homeowners gradually taken away from them. So I urge you to oppose and move to kill the proposal before the House Ways and Means Committee that limits deductibility on home equity loans.

People depend on the advantages of deducting interest payments on their home equity loans, and elimination of this option would severely and adversely affect the economy. It would also shake and hamper the faith and confidence of potential homeowners.

Please act quickly to kill this disastrous measure that is now before the Committee.

Sincerely,

James D. Fowler Jr.

James D. Fowler, Jr.

July 30, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U. S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As a citizen and voter, I strongly urge you to retain the home mortgage interest deductions for homeowners as presently constituted.

To eliminate this deduction would impose serious hardships to millions of home buyers, it would also make the purchasing of property less worthwhile, thereby seriously impacting the home building industry and create unemployment.

Sincerely,

W. Frederics

Walter Frederics

2036 Jebs Court
Kennesaw, GA 30144

cc: Ed Jenkins, Majority Member/Ga.

07-16-87

The Honorable Dan Rostenkowski
Chairman of the House Ways & Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman:

I am writing you objecting to the fact that as the "Tax Law" now stands, where people who do not own homes will eventually no longer be able to deduct their interest on car loans, credit cards, etc., homeowners through the use of home equity loans currently have a "loophole" through which they can borrow money for cars and other consumer items and still deduct all of their interest on their income tax returns.

I think it is fine that people buying their home should be able to deduct their mortgage interest. However, it is outrageously unfair that with home equity loans and home equity lines of credit these same homeowners are still also able to deduct all of their interest on the purchase of cars, vacations and other consumer items while people like myself who cannot afford to purchase a home will be prohibited from deducting consumer interest. I still have a car I am paying for and soon I will no longer be able to deduct any interest generated by my car loan.

The only fair solutions I can see is to either go back to allowing all taxpayers the right to deduct all consumer interest on their tax returns or to prohibit the deduction of consumer interest for everyone including homeowners with their use of home equity loans.

I am enclosing a news article on home equity loans and the deductability of consumer interest through their use. I hope you will take the time to review this article and seriously consider the issue I have written you about. I want fair taxes!!

I would appreciate a response regarding your views on this issue.

Sincerely,

Margene Hirschi
Margene Hirschi
2233 Otis Drive, Apt. D
Alameda, California 94501

If you want to cash in your equity you'd better hurry

Kenneth Harney
Nation's housing

HOME EQUITY LOANS
CONGRESS

WASHINGTON — If you're a home-owner or buyer with plans to turn some of your equity into cash, think about speeding up your timetable. Congress could surprise you with bad news if you wait too long.

Tax-writers on Capitol Hill are sharpening their knives again, and looking your way. Both House and Senate have approved a federal budget requiring $19.3 billion to be raised in new taxes for the coming fiscal year. They've also agreed to impose $64 billion in aggregate new taxes during the next three years.

So where's the tax money to come from?

One area ripe for picking, says the congressional Joint Committee on Taxation, is home-equity loans. In a report prepared for House Ways and Means Committee hearings, federal tax experts suggested five ways to get new money out of the home-equity boom.

① Tops on the list is a proposal to ban deductibility of interest on equity loans unless the proceeds are used to rehabilitate, construct or acquire a first or second residence. Nothing else would qualify for interest deductions.

Put into practical terms, that means this: If you're using your home-equity loan to buy a car with tax-deductible interest, forget it. You couldn't deduct the interest anymore under the revised tax rule. Or if you're using your equity loan proceeds to pay for an expensive vacation, furniture, or to consolidate charge-account bills, the game's over. No deductions for interest on the loan.

What's particularly attractive to federal money-hunters about this, the report indicates, is that it raises big dough, fast. If the new plan were imposed on home-owners next fiscal year, the report estimates, it would raise nearly $4 billion in additional taxes between 1988 and 1990.

Besides new revenues, tax reformers suggest it would have the public-policy benefit of "tend(ing) to limit interest deductions to situations where the incentives would directly encourage home ownership."

A second cutback on home-equity loans proposed by the committee would be to limit interest deductions on loans used for non-educational or non-medical purposes to $10,000 a year. That wouldn't touch as many people as the first. It would raise a mere $600 million from home-owner taxpayers by 1990.

② A third and far more controversial attack suggested by the committee would be aimed directly at the fastest-growing form of home-equity loans: revolving lines of credit with no fixed terms for loan repayments. These are the "equity lines" that banks and savings and loans have promoted so heavily in the wake of last year's Tax Reform Act. Once you're approved for credit tied into your real-estate equity, you simply draw down your line at will.

Since the credit is secured by your personal residence, all the interest is tax-deductible, no matter what consumer purchases it finances. Under the 1986 Tax Reform Act, by contrast, interest on conventional consumer loans—including charge accounts—is nondeductible. Although the committee report offers no revenue-raising estimates, the new tax money over the coming several years could be substantial. It would also put a severe crimp in the multi-billion-dollar credit-line industry that's grown so rapidly during the past 12 months.

Two final proposals from the committee would touch smaller numbers of people, generally middle-to-upper income. The committee suggests eliminating interest deductions on loans for boats and mobile homes as second residences. For years, the federal tax code has permitted certain boats and mobile homes to be qualify as legitimate second residences, provided they contain the full complement of cooking, sleeping and sanitary facilities found in any home. Fifteen-foot runabouts and cab-overs on pick-up trucks never made the grade.

Suddenly shifting all boats and mobile homes into the nondeductible category would raise political hackles in all the major tourism and recreation-oriented states, while apparently raising less than $50 million in net new taxes.

The committee's last proposal would touch only the super-rich. It would limit to $1 million the maximum amount of home-mortgage debt that would qualify for interest deductions. Beverly Hills would howl at this one, but most people wouldn't give it a second thought.

Congress is irretrievably pledged to raise taxes. President Reagan has threatened veto, but would probably go along with some compromise budget solution. Whether the taxes on the horizon come out of home-owners' hides—or someone else's—could be determined by the end of July.

If all taxpayers are not going to be allowed to deduct their consumer interest on car loans and other consumer purchases, I strongly urge you to encourage congressional support of the two proposals I have highlighted.

Sincerely

Margene Hirsch.

August 3, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I have just read the letter to you dated July 21, 1987 from Mr. Robert B. Evans, President of the American Financial Services Association regarding deductions for interest on Home loans.

I agree with the AFSA position and also urge you to retain the home mortgage interest deductions for homeowners as presently constituted.

Sincerely,

Richard W Hodson

Richard W. Hodson
18592 Amate Circle
Villa Park, CA 92667

ITT

ITT Financial Services

301 East Main Street
P.O. Box 905
Walla Walla, Washington 99362
(509) 529-9452

August 4, 1987

The Honorable Dan Rostenkowski
Chairman-House Ways & Means Committee
United States House of Representatives
Washington, D.C. 20515

Dear Honorable Dan Rostenkowski:

I am taking this time to write you regarding your committee's present consideration of restricting or completely eliminating the interest deduction on home equity loans. It is my sincere feeling that this measure is unfair because purchasers of homes would be able to use the full deduction, whereas current users of the home equity deduction would be limited or eliminated. Although I am a renter at this time, I am seriously considering purchase of a home in the future and taking advantage of this deduction as I use the hard earned equity my home will accumulate.

As a manager of a consumer financial services branch office, I can see how this will negatively affect all of my customers that are homeowners. I operate a smaller branch but have over 400 customers that would be affected. Most branches are larger than mine and our company alone has over 600 offices in the United States and possessions. Not only will this measure affect all of these people in a negative fashion, but it will affect the economy, hurt profitability and reduce job opportunities.

There is an old saying that goes, "Nothing is as seductive as a bad idea who's time has come". For this reason, I urge you to loudly oppose any measure that would change the present tax law which exempts interest on loans secured by real estate from taxes. Thank you for your consideration. Please keep me up to date on what happens with this issue.

Sincerely,

Kenneth B. Campbell

Kenneth B. Campbell
Manager

KC

John D. Lee
1420 Burr Oak Drive
Glenview, IL 60025

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I understand that your Committee may limit or deny the continued deductibility of interest on home equity loans. I oppose the idea.

Many homeowners such as myself look to home equity loans as a method by which to afford college education for our children and possible medical expenses or home improvements. To take away the access to these loans under current law would not necessarily result in additional tax revenue.

Sincerely,

John D. Lee

Meridian Bancorp, Inc.
35 North 6th Street
P.O. Box 1102
Reading, PA 19603

Meridian

July 21, 1987

The Honorable Daniel Rostenkowski
Chairman
Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I am writing on behalf of Meridian Bancorp, Inc., a $6.9 billion bank holding company based in Southeastern Pennsylvania, concerning the Ways and Means Committee's proposed consideration of legislation regulating the deductibility of interest accrued on home equity loans.

As a result of Congress's 1986 tax reform package, many consumers turned to other products to provide limited tax relief as to interest on borrowings. Since that time, millions of consumers have taken out lines of credit secured by their homes.

Meridian believes that the limitations imposed last year by the Congress on the home equity line of credit product were carefully and thoughtfully crafted. As you know, current limits on the amount of interest eligible for a tax deduction are based on the cost of the residence, including, the cost of home improvements and qualified education and medical expenses.

We urge the Ways and Means Committee to maintain the current regulations affecting residential interest deductions. Further meddling with this tax area with the resultant product changes are unfair to the millions of consumers who have subscribed to this product. The attributes of order and stability are well deserved by the consumer in his or her financial planning.

Thank you for taking the time to review our concerns.

Sincerely,

Ann F. Bavaria

Ann F. Bavaria
Government Affairs Officer

AFB/sjs

August 12, 1987

The Honorable Dan Rostenkowski
Chairman
Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

The Consumer Bankers Association represents approximately 700 banks, savings and loans and credit unions, which collectively account for the majority of home equity lines of credit in use today by the public. We view with great concern your consideration of proposals to end or limit the ability of our customers to deduct the interest paid on these accounts for tax purposes.

According to a recent Federal Reserve survey, six percent of households owning their homes have such lines of credit, and an additional one percent have applied for such credit. (This survey included 1,300 families in March and April.) Many of these millions of homeowners have applied for such credit as a well-considered reaction to changes in last year's tax bill.

The tax treatment afforded home equity loans was carefully considered when last year's tax reform legislation was written, as you know. At that time, limits were put in place which effectively restrict the amount of interest on equity-secured credit which would be eligible for a tax deduction. These limits are the cost basis of the residence, including the cost of home improvements, plus the amount of qualified education and medical expenses. This was a carefully considered action, and in no way did it constitute the unintended creation of a new "loophole."

To change the rules again would be like jerking the rug out from under those millions of taxpayers who in good faith have undertaken the time and expense of applying for home equity lines of credit.

Certainly, little is known about the true revenue impact of the proposals being considered by your Committee, and any projected revenues must be considered suspect. Very little is known so far about usage patterns for home equity loans, and while CBA is currently undertaking a major lender survey which will provide some of this information, it will not be possible to judge the impact of tax reform on home equity credit until data for 1987 are available. Additionally, it is impossible to determine or predict how consumers may further change their borrowing behavior in ways which would negate the anticipated revenue impact from the options under consideration.

In short, last year's tax bill represents a balanced treatment that encourages home ownership, while putting in place reasonable limits on deductions for interest on home equity credit. Any changes at this point may prove counterproductive, ineffective, or unworkable.

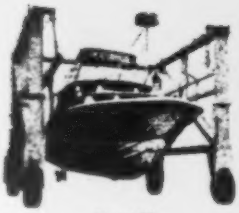
Sincerely,

Meridian Bank
Hamilton Mall at Seventh Street
Allentown, Pennsylvania 18101

Identical letter was submitted by the following:

Meridian Bank, Ms. Patricia A. Schmidt, Allentown, Pennsylvania

MISSISSIPPI COAST MARINE
INC.
GULFPORT SMALL CRAFT HARBOR
P. O. BOX 1026 GULFPORT, MISS. 39502
(601) 864-1492



TAMI LIFT

July 9, 1987

House Ways & Means Committee
Chairman Dan Rostenkowski
% U S House of Representatives
Washington, D C 21515

RE: Bill S.624

Dear Sir:

Please review Bill S.624 carefully with consideration given to the fact that, once again, a plan is set forth to tax pleasure boating to the exclusion of other similar recreation/vacation activities. Mr. Danforth's bill wishes to eliminate the tax deduction on boat loans (deductable as a "dwelling unit") but does not include condos, vacation homes, or large recreation vehicles. This should certainly be considered discriminatory legislation, and we who earn our livlihood from pleasure boating hope that the bill is defeated.

Most boats are owned by our working class who can ill-afford to have any extra tax burden. We should give no consideration to a bill which would not only add taxation, but would do so in such a discriminatory manner. Won't you help defeat this bill?!

Respectfully submitted,

John A. Beasley
General Manager

JAB/rp

OAK PARK TRUST & SAVINGS BANK
VILLAGE MALL PLAZA • OAK PARK, ILLINOIS 60301 • (312) 383-1000 • (312) 626-9400

July 20, 1987

The Honorable Dan Rostenkowski
Chairman
Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Oak Park Trust & Savings Bank is a member of the Consumer Bankers Association which represents approximately 700 banks, savings and loans and credit unions, which collectively account for the majority of home equity lines of credit in use today by the public. We view with great concern your consideration of proposals to end or limit the ability of our customers to deduct the interest paid on these accounts for tax purposes.

According to a recent Federal Reserve survey, six percent of households owning their homes have such lines of credit, and an additional one percent have applied for such credit. (This survey included 1,300 families in March and April.) Many of these millions of homeowners have applied for such credit as a well-considered reaction to changes in last year's tax bill.

The tax treatment afforded home equity loans was carefully considered when last year's tax reform legislation was written, as you know. At that time, limits were put in place which effectively restrict the amount of interest on equity secured credit which would be eligible for a tax deduction. These limits are the cost basis of the residence, including the cost of home improvements, plus the amount of qualified education and medical expenses. This was a carefully considered action, and in no way did it constitute the unintended creation of a new "loophole."

To change the rules again would be like jerking the rug out from under those millions of taxpayers who in good faith have undertaken the time and expense of applying for home equity lines of credit.

Certainly, little is known about the true revenue impact of the proposals being considered by your Committee, and any projected revenues must be considered suspect. Very little is known so far about usage patterns for home equity loans, and while CBA is currently undertaking a major lender survey which will provide some of this information, it will not be possible to judge the impact of tax reform on home equity credit until data for 1987. are available. Additionally, it is impossible to determine or predict how consumers may further change their borrowing behavior in ways which would negate the anticipated revenue impact from the options under consideration.

In short, last year's tax bill represents a balanced treatment that encourages homeownership, while putting in place reasonable limits on deductions for interest on home equity credit. Any changes at this point may prove counter-productive, ineffective, or unworkable.

Sincerely,

Patricia O. Baker

Patricia O. Baker
Vice President

POB:ajl

RECREATION VEHICLE INDUSTRY ASSOCIATION
1896 PRESTON WHITE DRIVE
P.O. BOX 2999
RESTON, VIRGINIA 22090

July 10, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C.

Dear Chairman Rostenkowski:

The Recreation Vehicle Industry Association (RVIA) urgently requests that interest on loans to purchase mobile homes and recreation vehicles (RVs) that are used as second residences continue to be deductible. Repeal of this deduction would provide miniscule revenue and would have a serious adverse economic impact on an industry that is still slowly recovering from the combined aftereffects of fuel prices that remain much higher than pre-oil embargo levels and the recent period of high interest rates.

RVIA is the national trade association that represents manufacturers of recreation vehicles and related suppliers that produce over 95% of this product.

Repeal of the current RV interest deduction would violate two cardinal principles that should be embodied in the federal tax code: Equality and fairness.

Equality: All "qualified residences," whether they are stationary or mobile (i.e., detached houses, townhouses, condominium apartments, motorhomes, trailers, campers or boats), should be treated the same under the tax law.

Fairness: The tax code should not discriminate against middle income and other tax payers who choose recreation vehicles as their second residence by according preferential treatment to those who choose luxury resort condominiums. In 1986, the average retail price of recreation vehicles was under $20,000. The annual income of most recreation vehicle purchasers is less than $30,000.

For the above reasons, RVIA urges that the revenue option that would repeal the current mobile home and RV interest deduction be rejected (Option D. 3. b. 5. on pages 94 and 95 of the Joint Committee Print of June 24, 1987).

Sincerely,

Edward F. Conway, Jr.

Edward F. Conway, Jr.
Assistant General Counsel
Recreation Vehicle Industry
Association

August 7, 1987

Dear Honorable Dan Rostenkowski,

I am writing to oppose any change in the tax law disallowing home owners to deduct the interest on loans secured by real estate. This deduction allows for people to put children through college, and creates jobs from home improvements that otherwise wouldn't be undertaken.
This change in the system which has been in effect for years will be so unpopular that it will probably have to be repealed within six months of enactment. In my opinion, Congress should think long and hard before it changes something which has such wide acceptance with the public.

Thanks for your condideration.

Sincerely,

Steven Scriver
5245 Park Avenue
Minneapolis, Minnesota 55417

P.S. Please let me know what happens and how you voted on this issue.

Sears Consumer Financial Corporation
333 Knightsbridge Parkway, Lincolnshire, Illinois 60069
Telephone (312) 634-5300

August 4, 1987

Milton G. Bishop
Senior Vice President
Product Development

The Honorable Dan Rostenkowski
Chairman
Committee on Ways & Means
United States House of Representatives
Washington, D.C. 20515

Re: Interest Deductibility of Home Equity Loans

Dear Chairman,

I would like to express my opposition to any legislative proposal that would restrict or possibly eliminate the current interest expense deduction allowed on Home Equity loans.

I understand that the Ways & Means Committee is in the process of considering such legislation and I would like to know your position on the specific issues.

To restrict such deductions would, in my opinion, be grossly unfair to thousands of Sears Consumer Finance customers who have opted to utilize their Home Equity for many worthwhile, constructive purposes.

Please let me hear from you on this very important matter.

Cordially,

M. G. Bishop

PB

The Riggs National Bank
of
Washington, D. C. 20074

(202) 835-5913

ROBERT D. LOCKARD
EXECUTIVE VICE PRESIDENT

July 15, 1987

The Honorable Dan Rostenkowski
Chairman
Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I view with great concern your consideration of proposals to end or limit the ability of our customers to deduct the interest paid on home equity lines of credit for tax purposes.

According to a recent Federal Reserve survey, six percent of households owning their homes have such lines of credit, and an additional one percent have applied for such credit. (This survey included 1,300 families in March and April.) Many of these millions of homeowners have applied for such credit as a well-considered reaction to changes in last year's tax bill.

The tax treatment afforded home equity loans was carefully considered when last year's tax reform legislation was written, as you know. At that time, limits were put in place which effectively restrict the amount of interest on equity-secured credit which would be eligible for a tax deduction. These limits are the cost basis of the residence, including the cost of home improvements, plus the amount of qualified education and medical expenses. This was a carefully considered action, and in no way did it constitute the unintended creation of a new "loophole."

To change the rules again would be like jerking the rug out from under those millions of taxpayers who in good faith have undertaken the time and expense of applying for home equity lines of credit.

Certainly, little is known about the true revenue impact of the proposals being considered by your Committee, and any projected revenues must be considered suspect. Very little is known so far about usage patterns for home equity loans, and while CBA is currently undertaking a major lender survey which will provide some of this information, it will not be possible to judge the impact of tax reform on home equity credit until data for 1987 are available. Additionally, it is impossible to determine or predict how consumers may further change their borrowing behavior in ways which would negate the anticipated revenue impact from the options under consideration.

In short, last year's tax bill represents a balanced treatment that encourages homeownership, while putting in place reasonable limits on deductions for interest on home equity credit. Any changes at this point may prove counterproductive, ineffective, or unworkable.

Sincerely,

Robert D. Lockard

K.A. SOLMSSEN
2206 LOCUST STREET
PHILADELPHIA, PA. 19103
(215) 732-4688

15 August 1987

The Honorable Dan Rostenkowski
House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:-

I understand that one way of raising revenue being considered is to limit the tax-deductibility of equity loans. This is a splendid idea.

The increase in equity loans is a great danger to the economy, and the banks pushing them will be just as sorry in the future as they are now about their Latin-American loans. The building up of equity in one's home has been the backbone of financial security in this country. Wasting these savings on consumer purchases, as is now being done, will leave millions of people in distress later on. Families which have to move to other cities because of job transfers will be unable to move because they ate up their home-equity.

Sincerely,

Kurt Solmssen
Kurt Solmssen

The Travelers Home Equity Centers
A Division of Travelers Mortgage Services

2339 Route 70 West
P.O. Box 5260
Cherry Hill, NJ 08034
609-488-4149

W. F. Sherwood
Vice President / Operations

July 31, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Respresentatives
Washington, D. C. 20515

Dear Mr. Chairman:

Recently it has come to the attention of Travelers Mortgage Services that the House Ways and Means Committee, based on a report entitled "Possible Options to raise Revenues", is considering an option which would eliminate or restrict interest expense deductions on home equity loans. Travelers Mortgage Services strongly opposes this option.

At Travelers, we realize that it is incumbent upon your committee to explore all avenues to raise revenue to meet budget short falls. Your efforts, and those of your committee, certainly should be applauded.

It is however, incumbent upon our company that every effort be made to permit parity amongst the classes of homeowners who borrow against their equity. We feel that the present law provides a much better balanced and equitable way to achieve this standard of fairness. The proposed option does not.

Although Travelers Mortgage Services is not the largest equity lender in the United States, we are certainly on the move. At the present time we have offices in 16 states with a customer base of nearly 4600 accounts. This of course is exclusive of the 34,000 accounts in portfolio under the 1st mortgage division of Travelers. Certainly this type of consumer base affords Travelers the insight and ability to know the needs of John Q. Public of today and the future.

It is on this basis that Travelers urges you and your committee to look to other areas to solve the complex budget problems and leave the present law reform act in place.

Sincerely,

William F. Sherwood,
Vice President
Travelers Home Equity Division

R. RICHARD WATSON
2415 MERRIMAC LANE
PLYMOUTH, MN 55447
HOME: 612-473-4021
WORK: 612-540-0881

August 4, 1987

The Honorable Dan Rostenkowski
Committee of Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Honorable Rostenkowski:

Please don't let Congress eliminate the deductible of second mortgage loans. I am currently planning a major addition to our house and probably will not do it unless the interest on a second mortgage, which I was planning to take out, is deductible.

This proposed elimination is grossly unfair and is certainly going to effect my personal plans.

Please do whatever you can to see to it that interest on second mortgages continues to be fully deductible.

Sincerely,

RWatson

R. Richard Watson

EDWARD T. COSTELLO
CONSULTING ACTUARY
307 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601
(312) 236-2295

August 27, 1987

Representative Dan Rostenkowski
Chairman of House Ways and Means
U. S. House of Representatives
Washington, D.C. 20510

Dear Chairman Rostenkowski:

The staffs of the JCT and House Ways and Means have released a number of "options" to increase revenues, which I strongly oppose.

The option to tax employees on employer provided health coverage is totally unacceptable.

Equally unacceptable are the staffs' options for taxing life and cafeteria plans and taxing loans from qualified retirement plans.

I urge you to drop these options and instruct the House Ways and Means staff accordingly.

Sincerely yours,

Edward T. Costello
Consulting Actuary

ETC/sc

WICHE
Western Interstate Commission for Higher Education
P.O. Drawer P Boulder, Colorado 80302
Telephone (303) 497-0200
Improving Education In The West

July 28, 1987

Dan Rostenkowski
U.S. Congressman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515-6348

Dear Congressman Rostenkowski,

I am writing regarding two concerns I have with the items that appear on the jointly prepared list of possible revenue raisers released by the Ways and Means Committee and the Joint Committee on Taxation on June 26, 1987.

First, I am greatly concerned with the complicated, time consuming, and costly administrative burden which would be placed on small employers if the ideas under consideration are implemented. As you are aware, during the past several years numerous pieces of federal legislation have been passed which have placed an ever increasing administrative burden on employers. Large, private corporations have been able to much more easily accommodate the considerable administrative burden these laws have generated; it has been much harder for small and non-profit organizations such as WICHE.

I am aware of the perceived need to generate more revenue; however, I urge you to consider means of raising revenue which do not impose further administrative burdens on small employers.

A second concern lies with the significant alteration in the philosophy of taxation which is inherent with the ideas in the aforementioned list, effectively the commencement of the taxation of fringe benefits. Society obtains innumerable benefits from the current non-taxed status of most fringe benefits. If taxes and restrictions are imposed in the areas of health insurance, retirement plans, and child day care assistance either directly or indirectly through major limitations to cafeteria benefit plans, significant hardships will result for small employers. This will in turn cause employers to consider decreases in coverage or the total elimination of some benefits. Ultimately, the primary losers will be lower income people who can least afford to be without these benefits and this would in turn result in a call for greater financial commitments from government to replace these benefits.

For both of these reasons, I would urge you to consider increases in income taxes as a means of raising additional revenue, rather than the implementation of taxes and/or further restrictions involving fringe benefits.

Sincerely,

Marvin L. Myers

Marvin L. Myers
Director of Support Services

[redacted]

[redacted]

[redacted]

1400 South 43rd St.
P.O. Box 35900
Louisville, Ky.
40232-5900

Phone
502/774-4441

Other Locations:
Ashland, Ky.
Bowling Green, Ky
Corbin, Ky
Evansville, Ind
Lexington, Ky
Paducah, Ky
Pikeville, Ky

August 7, 1987

Honorable Dan Rostenkowski
Chairman - Ways and Means Committee
United States House of Representatives
Washington DC 20515

Dear Representative Rostenkowski:

Whayne Supply Company, along with many other Kentucky employers, is concerned about the tax increase legislation being considered by the House Ways and Means Committee. If enacted, it will adversely affect employee group health insurance benefits.

It is our understanding that a recommendation may be made by your congressional committee to propose taxing the following employee group health care benefits:

- **Group Term Life** - Treat group-term life insurance coverage as taxable for FICA purposes.

- **Group Health Insurance** - Limit the income tax exclusion for employer-provided health insurance coverage. Suggested proposals would (1) tax individual health coverage in excess of $70 per month and family coverage in excess of $175 per month, and (2) make all employer-provided health plan coverage taxable for FICA purposes.

- **Death Benefits** - Repeal the $5000 exclusion for employer-provided death benefits paid to the estate or beneficiary of a deceased employee.

- **Group Benefits** - Repeal the income and wage tax exclusion for employer-provided health coverage and group-term life insurance.

For the Ways and Means Committee to recommend that Group Health Benefits be taxed will further burden both the employer and the employees who receive these benefits. These proposed recommendations for taxing health benefits are unnecessary, and will certainly have a negative economic impact on every major employer.

I urge you to reconsider the repeal and taxation of employee group health care benefits.

Sincerely,

James E. Davis
JAMES E. DAVIS
V.P. - Human Resources

[redacted] pj

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPS)

A. James Bates
1594 West Conway Road
Lake Forest, IL 60045

August 12, 1987

The Honorable Dan Rostenkowski
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Congressman Rostenkowski:

I understand that the House Committee on Ways and Means is exploring various ways of increasing tax revenues and that a reduction in tax benefits for Employee Stock Ownership Plans (ESOPs) is under consideration. This is not a good idea.

I am proud to be an owner/employee of one of the most successful companies in its professional field, a company that provides a significant volume of its services to foreign nations and thereby helps to stem our horrendous trade deficit. A large part of this company's success is due to the excellent work ethics of its employee/owners.

It requires a lot of vision and hard work to convert a company to an ESOP, and such activities should be nurtured, not killed in infancy. Please give ESOPs a chance by not changing the income tax rules so soon after Congress endorsed the concept of employee ownership.

Very truly yours,

A. James Bates, P.E.

Similar letters were submitted by the following:

Mr. John D. Hendrickson, Tampa, Florida
Mr. J. Marshall Keneipp, Evanston, Illinois
Mr. John C. Mullan, Plymouth, Minnesota
Dr. James B. O'Hara, Altadena, California
Mr. Frederic M. Schweiger

August 7, 1987

The Honorable Dan Rostenkowski
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Congressman Rostenkowski:

Please give ESOPs a chance by not changing the income tax rules so soon after the Congress encouraged the concept of employee ownership.

Since our company became ESOP-owned, I have observed a noticeable improvement in the attitudes and productivity of my fellow employees. This not only makes our office a more congenial place to work, but makes us more competitive in the market place. The increases in productivity caused by ESOPs and the taxable dividends to ESOP participants actually increase revenue in the long run.

Sincerely,

Karen L. Beneda

Karen L. Beneda
4433 Huntshire Drive
Stone Mountain, GA 30083

1525 Harrington Place
Plano, Texas 75075
August 24, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Subject: Employee Stock Ownership Plans (ESOP's)

Dear Congressman Rostenkowski:

I understand that your House Ways and Means Committee is currently considering alternatives for increasing Federal Revenues. I urge you and your committee to oppose any changes in the Income Tax provisions now available for employees stock ownership plans (ESOP's), with the possible exception of changes to the State tax provisions.

ESOP companies provide a majority of Americans with their only opportunities to have an ownership stake in a company for which they also work as employees. Moreover, by spreading ownership among a company's employees, successful companies are less likely to fall into the hands of stock manipulators and foreign investors, both of which will divert profits from productive roles in our United States economy. Subsequent to my company becoming ESOP-Owned, I noticed a substantial change in attitude toward the teamwork concept. The results have been highly productive and motivational. We need to keep all incentives to encourage formation of additional ESOP companies.

Thank you in advance for opposing any reductions in current Income Tax benefits for ESOP's.

Sincerely,

Brian S. Bochner

Brian S. Bochner

BSB:mkm

July 29, 1987

The Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

I am writing to you regarding the recent proposal by the Congressional staff to reduce the income tax benefits for ESOPs. I urge you to oppose any reduction to the income tax benefits to ESOPs.

Please give ESOPs a chance by not changing the income tax rules so soon after Congress encouraged the concept of employee ownership. I am proud to be an owner/employee of one of the more successful companies in its industry. I believe this is due in large part to the fact that the company is employee owned through an ESOP program.

Very truly yours,

Donald W. Boyd

Donald W. Boyd
23415 Happy Valley Drive
Newhall, California 91321

22W500 Tamarack Dr.
Glen Ellyn, IL 60137
July 28, 1987

The Honorable Dan Rostenkowski
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman:

I am proud to be an employee of an ESOP-owned company. Since my participation in an ESOP, I have acquired a much larger nest egg for my retirement than I would have been able to accumulate in any other manner.

The ESOP provisions encourage companies to take much better care of their employees than they would if they had a normal profit sharing or retirement plan. The increases in productivity caused by ESOPs and the taxable dividends to ESOP participants actually increase revenue in the long run.

As Chairman of the Committee on Ways and Means, please give ESOPs a chance by not changing the income tax rules so soon after the Congress encouraged the concept of employee ownership.

Sincerely,

J. T. Brown

Similar letters were submitted by the following:

Ms. Jeanine E. Bzdyl, Dolton, Illinois
Mr. J. A. Caywood, Dickerson, Maryland
Mr. R. A. Duchek, Palatine, Illinois
Ms. A. Dziem, Des Plaines, Illinois
Mr. Clifford C. Eby, Rockville, Maryland
Mr. J. C. Lockwood, Springfield, Virginia
Ms. Sheila F. Milder, Chicago, Illinois
Mr. S. M. Penciak, Lynwood, Illinois
Mr. J. F. Rollings, Wilmette, Illinois
Ms. Dorothy E. Schawk, Des Plaines, Illinois
Mr. A. R. Siff, Richmond, Virginia
Ms. L. Smith, Deerfield, Illinois
Mr. John F. Yost, Buffalo Grove, Illinois

August 13, 1987

The Honorable Dan Rostenkowski,
  Chairman
Committee on Ways and Means
1102 Longworth House
  Office Building
Washington, D.C. 20515

Dear Congressman:

Please oppose any changes to the income tax law affecting ESOPs which would make it more difficult for companies to establish and operate ESOPs for their employees. In my opinion ESOPs are good for the economy.

The ESOP provisions encourage companies to broaden their employee's participation in the ownership and management of their firm. We have been an ESOP operation for three years, and the increases in productivity and morale attributable to the ESOP concept are significant. The taxable dividends to ESOP participants actually increase revenue to the Government in the long run. I am proud to be an employee of an ESOP-owned company, but our ESOP must be given a long-term commitment for it to succeed.

IRA benefits were rescinded by Congress within a short period of time after enactment; please oppose elimination of benefits associated with ESOP.

Your direct support in defeating this ill-advised proposal will be remembered and appreciated.

Sincerely,

Phyllis B. Daniels Gardiner

Phyllis B. Daniels-Gardiner
4907 N. Marmora
Chicago, Illinois 60630

Similar letters were submitted by the following:

Mr. Chester J. Brzezinski, Charlotte, North Carolina
Ms. Jean H. Fahnestock, Chicago, Illinois
Mr. W. G. Horn, Arlington Heights, Illinois
Mr. David D. Kays, Claremeont, California
Mr. Edward H. Liebold, Chicago, Illinois
Mr. Robert H. Meyer, South Holland, Illinois
Mr. Michael N. Plei, Glenview, Illinois
Mr. Michael F. Quirk, Glen Ellyn, Illinois

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UNDERBERG, MANLEY, MYERSON & CASEY
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SAN DIEGO, CALIFORNIA 92101
(619) 231-8700

July 15, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to outline many of the reasons why the Congress should continue to expand on incentives designed to encourage expanded capital ownership in general, and employee stock ownership in particular.

As the first two pages of the memorandum indicate, the Ways and Means Committee must act to encourage the widespread use of ownership-expanding techniques of finance. If the Committee chooses not to act, it is choosing to leave intact an ownership-concentrating "closed system" of finance that will continue to finance ownership of the economy's income-producing assets into fewer and fewer households.

I would be happy to work with you and your staff in developing, revenue-enhancing legislation that will advance policy objectives endorsed by a majority of Members on both tax-writing Committees.

I am submitting this testimony in my personal capacity as someone who has worked in this area of law since 1973, most recently as counsel to the Senate Finance Committee (1980-1986).

I request that this letter and the enclosed memorandum be made a part of the hearing record.

Sincerely,

Jeffrey R Gates
Jeffrey R. Gates

DENKA CHEMICAL CORPORATION 8701 Park Place Blvd. 77017 • P.O. Box 87220 Houston, Texas 77287 713/477-8821 Telex 77 46 96
An Employee-Owned Company

COMMITTEE ON
RECEIVED
JUL 20
WAYS AND MEANS

July 1, 1987

The Honorable Dan Rostenkowski
Chairman, Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

We understand that the Ways and Means Committee may soon be voting on the committee's proposal which would effectively repeal all leveraged ESOP transactions and all special ESOP tax rules.

Although we are not a leveraged ESOP, we are nonetheless employee-owned. As such, we very strongly oppose any legislation which may have a negative effect on ESOPs.

Respectfully,

JR McGinnis
J.R. McGinnis
Corporate Secretary

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UNDERBERG, MANLEY, MYERSON & CASEY
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MEMORANDUM

TO: Committee on Ways and Means

FROM: Jeffrey R. Gates, Of Counsel

DATE: July 15, 1987

RE: Why encourage expanded capital ownership?
Why encourage employee stock ownership plans (ESOPs)?

---

* Promotes a wider sharing in the capital ownership benefits of capitalism.

Note: According to a 1987 GAO Report, 89.9% of corporate stock (88% of bonds and 90.9% of business assets) are owned by just 10% of households. The top 1% of households own 58.4% of corporate stock. The top 0.5% own 45.6%. Figures include stock owned directly through mutual funds and exclude holdings of pension trusts (which hold 21.7% of corporate stock). (See Exhibit A.)

* Ensures that more taxpayers benefit from capital financing tax policies.

Note: From 1975-1982, corporate savings from the two primary capital financing tax benefits (i.e., depreciation and the investment tax credit) totalled $1,208,000,000,000. Given today's capital ownership pattern, roughly half of those tax benefits were utilized to finance additional income-producing assets for just 1% of U.S. households. (See Exhibit B.)

* Offers the only feasible approach to fostering widespread sharing in the ownership benefits of free enterprise (i.e., utilizing corporate earnings to finance equity acquisitions for employees).

Note: Practically all corporate funds are provided through three sources: (1) earnings and profits, (2) tax benefits and (3) debt -- none of which create any new owners. This "closed system" of finance is why the economy's capital base expands while its capital ownership base remains virtually unchanged. (See Exhibit C.)

* Provides a non-redistributive way to expand capital ownership; not taking one person's capital to give it to another but instead encouraging our economic future to be financed so that more people have an ownership stake and encouraging transfers in ownership to be financed to create a wider base of capital-owning households.

Note: Annual capital expenditures nationwide nontotal approximately $400 billion per year -- roughly $6 trillion in new and replacement capital to be financed by the year 2000. If nothing is done, the existing "closed system" of finance will ensure that half of that $6 trillion will be owned by just 1% of households. (See Exhibit D.)

* Offers an economic policy that can be embraced by both conservatives ("every man a capitalist") and liberals ("cutting the working man in on a piece of the action").

* Provides a financing technique to broaden the ownership benefits attributable to mergers, acquisitions and leveraged buyouts.

Note: Such transactions totalled $35 billion in 1980, skyrocketing to $175 billion in 1985 -- consuming enormous amounts of tax benefits and utilizing a significant portion of the economy's credit capacity while transferring phenomenal quantities of income-producing assets to a few managers, investment bankers and already-wealthy investors.

* Provides a forward-looking populist program - versus the "rearview mirror populism" represented, for example, by the estate tax or steeply regressive income taxes.

* Enhances motivation, dedication, quality, creativity and competitiveness.

* Improves productivity -- from both people and physical assets.

* Lowers absenteeism, turnover and grievances.

- Promotes a better understanding by all employees of company's goals and what is needed to achieve those goals.
- Improves the quality of working life (e.g., The 100 Best Companies to Work For in America found a close correlation between employee ownership and job satisfaction).
- Facilitates a new style of management (e.g., by encouraging the shift from a "control" management model toward a "commitment" model).
- More manager time can be spent planning and less implementing.
- Can save time and costs by flattening the organizational pyramid.
- Improves the workplace feedback gathered by those "managing by walking about."
- Promotes better labor/management relations.
- Enhances cooperation and teamwork.
- Provides a workplace context from which employee involvement programs are more likely to emerge (e.g., quality circles, participative management, etc.).
- Blurs lines between manager and managed and helps insure that traditional labor/management issues (working conditions, pay, benefits, etc.) are resolved within a climate in which both parties share a commitment to maintaining their employer's long-term viability.
- Promotes a sense of shared values, the most powerful factor underlying the superior performance of the most excellent firms (as documented in In Search of Excellence).
- Promotes mutual trust and better communications -- as employees begin to be treated as co-owners.
- Encourages a wider sharing of information within the company.
- Managing (and being managed) becomes more humane, more personal and more gratifying.
- Reduces workplace stress.

- Fosters a workplace context better able to access the untapped potential reservoir of human energies, resources and commitment -- the root source of quality, creativity and productivity in any enterprise.

- Helps avoid management mistakes (management is too important to be left solely to management).

- Encourages a focus on the needs of customers.

- Provides a way for employees to "harvest" the increased value created through superior performance (via equity sharing) without additional company cost.

- By providing a way to weave past and future into each day's work, promotes a long-term perspective among the workforce.

- Provides a fairer distribution of rewards.

- Offers a method of gain sharing that provides employees a real stake in their employer (versus the "industrial sharecropping" of profit-related pay advocated in Weitzman's The Share Economy).

- Builds ownership into a company's natural shareholders -- its employees, rather than into absentee investors and speculators.

- Promotes widespread economic autonomy (providing an opportuniry not just to be an economic input but also to own economic inputs).

- Updates government's role in promoting economic opportunity (not just jobs but also ownership).

- Enhances personal dignity ("working for ourselves").

- Empowers people.

- Promotes "patient" capital, allowing managers to manage for the long term -- rather than managing quarter-to-quarter in constant fear of a takeover.

- Provides a way to "anchor" domestic capital rather than have it flee overseas in search of lower labor costs.

- Provides a way to preserve a community's job-creating capital base (and its tax base) and to promote a company's loyalty to the community.
- Offers a more equitable way to respond to competitive realities (e.g., employees working for the same or less pay in exchange for capital accumulation and dividend income).
- Provides a way to avert plant closings (e.g., via ESOP-financed buyouts of viable operations).
- Recognizes that employees calculate "hurdle rates" differently than traditional absentee owners: for employees, maintaining their homes and their lifestyles, as well as their current jobs, are values that lead employee-owners to be more flexible -- both in terms of expected enterprise profitability and in terms of compensation.
- Enhances companies' flexibility and strength: the wider the choice of possible responses to a situation, the greater a company's chance of success (e.g., temporarily trading off cash compensation for capital accumulation).
- Promotes job security.
- Offers a new approach to "two tier" labor contracts (e.g., with older employees taking more cash out of the company and younger employees accumulating more equity in the company).
- Can operate as the quid pro quo that overcomes the "downward stickiness" of labor costs --- the oft-lamented reality that frustrates the academic elegance of free market theorists.
- Promotes respect for private property (80% of those in U.S. prisons are there for crimes against property).
- Fosters community cohesiveness.
- Enhances business continuity -- with companies sold to local employees rather than to absentee investors.
- Fosters widespread demand stimulation - with a capital source of income (dividends) supplementing labor income.

- Improves investment climate by creating a broader base of investors (the largest minority in this "capitalist" economy is comprised of those who own no significant amount of capital).
- Provides a process that enables people to gain an opportunity to participate - to give of themselves - and to feel that they are a part of something larger than themselves.
- Promotes economic and social justice.
- Increases social harmony -- by consciously creating more haves and fewer have-nots.
- Offers a new economic model for the U.S. to advocate in its foreign relations (concentrated ownership continues to be capitalism's geopolitical Achilles heel).
- Provides an exportable model of capitalism (something this nation has yet to offer) -- demonstrating how capitalism can be structured to build capital for working people.
- Demonstrates how governments can implement free enterprise principles abroad.
- Attacks the cause of poverty and dependence (i.e., a lack of "economic connectedness") rather than addressing only the effects (i.e., a lack of adequate income); a primary cause of poverty is the lack of ownership of a viable holding of productive capital in a world where the vast bulk of goods and services are produced by capital rather than by labor and where technological change relentlessly sharpens that disparity.
- Helps relieve the fiscal strain of transfer payments, tax incentives for retirement benefits and Social Security -- by promoting widespread economic self sufficiency via capital accumulation.
- Addresses the relevant economic needs of the dominant age group.

  Note: In 1988, 61.5% of the voting-age population will be under 45 years of age. Are they more interested in retirement security (e.g., pension annuities and Social Security) or economic opportunity (i.e., capital accumulation)?

- Educates people about the advantages of a free enterprise private property system by the most effective means possible -- insuring that they have a stake in it.

- Recognizes that, in a market economy, outtake (i.e., income) is based on input and that, as technology moves through time, households need to be connected to their economy's increasingly dominant inputs (i.e., productive capital and the labor-saving, job-eliminating, income-producing technology embodied therein.)

  Note: The symptoms indicating the need for a more complete method of "economic connectedness" are rapidly becoming more obvious. For example, from 1979 to 1984, white adult males experienced a 53% loss in jobs paying twice the median income while experiencing a 97% increase in jobs paying one-half the median income. The middle class is rapidly shrinking and, for the first time in history, the U.S. has a rising generation assured of having a lower standard of living than that their parents.

- Embodies an economic policy that reflects the technological reality of economic participation in a post-industrial economy.

- Promotes market-based, self-sustaining economic flows; production and consumption are two sides of the same coin -- producers need consumers with purchasing power adequate to buy their goods and services -- ESOP financing links income-needy households to consumer-needy markets.

- By humanely financing the future, ensures that this nation's technology is designed to support a broad base of those whose culture gave rise to that technology.

- By enhancing economic security, makes it possible for more people to participate in cultural activities (leisure, music, religion, politics, education, child-rearing, etc.)

- Promotes environmental responsibility without increased government regulation by encouraging local versus absentee ownership or, as economists phrase it, "localizing control over the externalities".

- Recognizes (as a Federal system should) that the States (19 to date) are actively promoting employee ownership but there is a limit to their capacity to effectively advance an idea so dependent on the national agenda.

- Recognizes that finance is itself a type of techonology -- e.g., its practitioners use technological terms to describe its workings, such as "leverage" (from the technology of mechanics) and cash "flow" (from hydraulic technology); thus, that financial technology can be adapted so that it operates to economically empower many households rather than just a few.

- Recognizes that social institutions (including the institutions and conventions of finance) are a bit like evolution -- they change in bursts, experiencing long periods with very little change interspersed with periods of rapid, often intense change: our institutions badly need an evolutionary change - a change totally dependent on political will.

- Establishes not a firm destination but a better defined and a more hopeful sense of economic direction.

- Provides a vision that serves as a challenge.

- Provides a national strategy that focuses less on the symbols of national unity and more on a strategy that can foster a true national unity - a unity that can command respect, nationally and internationally, over a long period of time.

0101r

Exhibit A

Table 4.1: Assets of All Households and of the Wealthiest Households, 1983

Type of asset	All households amount[a]	Percent of total for Wealthiest households: Top 0.5%	Top 1%	Top 10%
Trusts	$496.7	77.0%	81.6%	95.1%
Corporate stock[b]	1,005.0	46.6	58.4	89.8
Bonds	328.1	41.3	49.8	88.0
Business assets	2,274.8	39.0	51.6	90.9
Money market accounts	285.0	15.9	22.5	58.8
Real estate	5,356.0	14.9	19.3	49.2
Land contracts	111.0	13.9	15.2	50.4
IRAs and Keoghs	142.2	13.0	21.1	67.3
Checking accounts	115.9	9.7	17.2	46.3
Insurance cash surrender value	259.8	6.7	10.5	34.9
Certificates of deposit	383.1	4.8	10.7	49.9
Savings accounts	189.5	2.1	5.2	31.1
Automobiles	359.5	1.6	3.0	20.1
Miscellaneous	201.1	15.2	22.1	70.2
Gross assets	11,468.4	24.8	31.8	63.5
Net worth	10,938.9	28.7	34.3	67.92

[a] In billions of dollars.

[b] Including stock owned directly or through mutual funds, but excluding holdings of pension plan trusts.

Source: U.S. Congress, Joint Economic Committee, The Concentration of Wealth in the United States: Trends in the Distribution of Wealth among American Families (Washington: Joint Economic Committee, 1986), p. 24. The figures in the table are based on revised estimates provided to us by the Federal Reserve Board following publication of the Joint Economic Committee report.

ESOPs appear to provide a broader distribution of stock ownership than generally prevails (not accounting for pension funds or insurance company holdings). ESOPs are subject to the Internal Revenue Code coverage and nondiscrimination rules applicable to all qualified employee plans. Thus, broad participation in ownership of the sponsoring corporation's stock is a condition for corporate use of tax advantages related to ESOPs. Based on data from the IRS, the median rate of employee participation for all ESOPs is nearly 71 percent. This proportion does not vary much among the types of ESOPs, although the median for tax credit ESOPs, less than 63 percent, is somewhat lower than for other types. Assuming that the employees of firms with ESOPs include workers who differ widely in levels of wealth and income, then the high proportion of these workers participating in stock ownership through ESOPs suggests that these plans do broaden stock ownership within sponsoring firms.

Exhibit B

Table 15

Major Corporate Savings from Investment Tax Credits and Depreciation Deductions in 1975–82[a]

	1975	1976	1977	1978	1979	1980	1981	1982	Total
Investment credit									
Total allowed	$4,660	$9,193	$11,038	$12,897	$14,635	$15,103	$18,007	$17,311	$109,604
Tentative	8,506	11,260	16,036	15,810	19,041	20,851	26,082[b]	29,430[b]	162,259
7%	1,170	210	50	53	8	[c]	[c]	[c]	1,519
10%	7,112	10,609	15,284	15,010	18,036	19,766	26,019[d]	29,166[d]	151,700
[illegible]	196	467	971	646	808	859	1,091	1,173	5,650
[illegible]	[c]	[c]	79	110	188	196	296	290	1,132
Patrons' regular	[c]	[c]	[c]	[c]	29	33	30	32	113
Depreciation deduction	$86,296	$93,763	$106,971	$121,380	$138,862	$157,366	$188,195	$213,170	$1,103,113
Maximum tax rate	48%	48%	48%	48%	46%	46%	46%	46%	
Estimated tax savings	$41,432	$45,006	$51,367	$58,224	$63,500	$72,379	$85,650	$98,062	$515,590

[a] Current dollars in millions. The difference between our estimate of the cost of TRASOP tax credits, $8.9 billion, in Table 14 and the IRS estimate, $6.8 billion, is explained by three factors: (1) our data cover 1977–83 and the IRS data cover 1975–82 (for 1977–82, years covered in both tables, our estimate of tax credit cost is $7.7 billion and the IRS estimate is $6.3 billion); (2) we assume that all contributions were claimed in the year of contribution, whereas IRS includes only the amounts actually claimed in each year (there are carryover provisions for the credits); and (3) different sampling frames were used in drawing the two samples, which may therefore represent somewhat different populations.

[b] Because of a change in the statistics-of-income reporting procedures, these numbers are not perfectly comparable to the numbers in the tentative investment credit category for previous years, and they come from a slightly different category, but they closely approximate the actual figures.

[c] Not applicable.

[d] This category was not reported in statistics of income for 1981 or 1982. The numbers reported here represent the difference between the tentative investment credit and the total of the TRASOP credits plus the patrons' regular investment credit for each year.

Source: Internal Revenue Service, Statistics of Income: Corporation Income Tax Returns. Washington, D.C.: U.S. Government Printing Office, 1975–82.

Exhibit C

Table 16

The Sources of Funds for Nonfarm, Nonfinancial Corporations in Selected Years 1955–85[a]

	1955	1960	1965	1970	1975	1980	1981	1982	1983	1984	1985
Total	$52,860	$48,622	$91,060	$102,364	$156,953	$333,231	$364,195	$309,380	$430,369	$482,587	$449,320
Internal	55.9%	72.8%	63.7%	60.4%	76.3%	56.5%	63.3%	75.7%	64.3%	69.0%	79.0%
Retained earnings	22.4	16.5	20.0	7.6	21.7	14.6	13.6	3.3	6.3	7.1	5.5
Capital consumption allowance	36.1	54.8	35.4	50.6	59.8	50.1	52.8	66.9	48.3	47.3	53.1
Iva and cca[b]	-7.1	-4.7	2.7	-4.8	-13.5	-17.1	-8.1	-1.8	5.0	10.2	15.2
Foreign earnings	4.5	6.2	4.8	6.4	8.3	8.9	6.7	7.3	5.7	4.0	5.2
External	44.1%	27.2%	36.3%	39.6%	23.8%	43.5%	36.7%	26.3%	35.7%	30.0%	21.0%
New equity issues	3.3	2.8	[c]	5.6	6.3	3.8	-3.1[d]	3.7	6.5	-10.0[d]	-10.9[d]
Debt	16.0	22.0	20.0	28.9	13.3	23.3	28.3	22.6	13.6	30.4	31.8
Other	24.8	2.4	16.1	5.2	4.2	16.3	11.6	-2.1	15.6	10.3	0.2

[a] Dollars current in millions, adjusted seasonally but not annually for inflation. All figures based on quarterly estimates, except 1985 based on first-quarter estimates only.

[b] iva = inventory valuation adjustment; cca = capital consumption adjustment.

[c] Less than 0.05 percent.

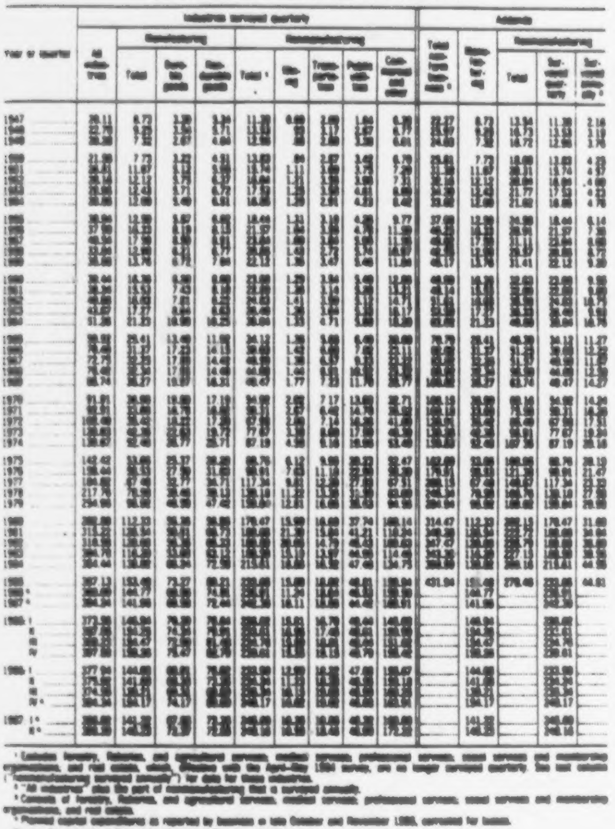
[d] Indicates firms bought more stock than they issued.

Source: Flow of Funds Section, Federal Reserve Board, Washington, D.C.

Exhibit D

TABLE B-51.—Business expenditures for new plant and equipment, 1947–87

[Billions of dollars; quarterly data at seasonally adjusted annual rates]



Source: Department of Commerce, Bureau of Economic Analysis.

162 Laurel Avenue
Highland Park, Illinois 60035

August 12, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

As the House Ways and Means Committee explores various options to increase federal revenues, I strongly urge your opposition to any reductions in the current income tax benefits available to ESOPs. The ESOP plans have two vital benefits: (1) the ESOP provision encourages individuals and companies to provide far better for retirement than normal pension plans and thereby take a substantial burden from the Social Security System for retirement, and (2) the increased productivity of ESOP companies and the taxable dividends provide more revenue to the government in the long term.

Although I do not oppose changes to the estate tax provisions, I believe that Congress should do everything in its power to encourage ESOP plans for U.S. companies and individuals.

Very truly yours,

Richard C. Gern

Richard C. Gern

Laidlaw
CORPORATION 6625 N. SCOTTSDALE ROAD · SCOTTSDALE, ARIZONA 85253 · (602) 951-0003
MAILING ADDRESS
P O BOX 4877 ZIP 85261

July 22, 1987

The Honorable Dan Rostenkowski
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth HOB
Washington, D.C. 20515

Dear Sir:

I understand that the House Ways and Means Committee is considering eliminating the favorable tax treatment of interest on loans used by Employee Stock Ownership Plans (ESOP) to buy employer stock.

Laidlaw Corporation, with factories in four U.S. towns and a corporate office in Scottsdale, Arizona, formed an ESOP in 1985 and obtained very favorable financing from First Interstate Bank of Arizona for the purchase of 100 percent of the stock of our employer, The Laidlaw Corporation. The favorable tax treatment on the interest earned on the money we borrowed was a key factor in our being able to purchase the company.

PLEASE DO NOT CHANGE THE TAX TREATMENT ON INTEREST EARNED ON ESOP BORROWING.

Our jobs depend on the success of our company and our ability to repay our ESOP loan, which has about six more years to be fully paid. Our loan covenant would require any increase in interest to be paid by us, the employees. We do not have much "margin for error", and any major cost increase for us could threaten our company - our jobs.

We are confident that the current ESOP legislation will permit us to achieve the dream of most Americans - to own our own business.

Please do not change the legislation, as doing so could well threaten our company and our employees.

Yours Sincerely,

Mary Ann Bashaw

Mary Ann Bashaw
Marketing Coordinator

Identical letters were submitted by the following, all employees of Laidlaw Corporation, Scottsdale, Arizona:

Ms. Kathy Coleman, Credit Accountant
Mr. Bill Cosnotti, Vice President, Sales and Marketing
Ms. Linda Hatleli, Bookkeeper
Gerry Olsen; Administrative Assistant
Ms. Kathy Priebe, Administrative Assistant
Ms. Lorie Rohner, Data Processing Operator
Ms. Maryjane Zagarrigo, Accounting

July 29, 1987

The Honorable Dan Rostenkowski
U. S. House of Representatives
Washington, D. C. 20515

Dear Congressman Rostenkowski:

I am strongly opposed to any changes in the income tax law affecting ESOPs because it will seriously affect my retirement. Also, ESOPs are a great way to make the United States more productive and competitive, and I hope you will oppose any changes.

Sincerely,

Phillip J. Morris
1160 Lorain Road
San Marino, CA 91108

August 10, 1987

The Honorable Dan Rostenkowski
U. S. House of Representatives
Washington, D. C. 20515

Dear Congressman Rostenkowski:

I see that Congress is considering using ESOPs as a new revenue source, this is typical. The means of a secure retirement for the working force does not lead to many choices (with the unsure situation of social security.) and Congress now wants to tax us on another item. The people can be taxed only so much on their hard work. Keep the estate tax proposal, but not the income tax proposals re ESOPs. The effect of this does not burden the government employees such as Congress who receive a very nice retirement, thanks to us taxpayers.

ESOP has given employees a little more pride and goals to strive for in their work. People should reap the awards of their hard work, not tax them away.

Please, oppose using ESOPs as a new revenue source.

Sincerely,

Jeff Munn
218 Kingsport Drive
Lawrenceville, GA 30245

August 5, 1987

The Honorable Dan Rostenkowski
U. S. House of Representatives
Washington, D. C. 20515

Dear Congressman Rostenkowski:

This is to register my deep concern for proposed legislation to reduce income tax benefits available to ESOPs. Although the estate tax change is acceptable, I am disappointed that Congress would discourage the concept of employee ownership. I am proud to be both an owner and employee of a very successful ESOP engineering firm. Our productivity is related to a large degree to the fact we work for ourselves. Please oppose this change.

Sincerely,

Robert J. Mussro
1508 Crooked Tree Lane
Stone Mountain, GA 30088

NCFE
National Center for Financial Education, Inc.
The non-profit corporation for public education, dedicated to helping people do a better job of spending, saving, investing, insuring, and planning for their financial future.
50 Fremont, 31st Floor, San Francisco, California 94105 (415) 777-0460

July 4, 1987

To The House Ways & Means Committee
HOUSE OF REPRESENTATIVES
Washington, DC 20202

Re: Employee Stock Ownership Plans

We just received word that your committee is considering a proposal that would nullify leveraged ESOP transactions and reduce special tax incentives.

I am enclosing an OPEN LETTER we have just sent out to financial media.

As you can see, we think it highly important that more, not fewer, ESOP be created so that more and more consumers can become not only employees but owners. We urgently suggest that you take steps not to reduce the appeal of ESOPs for the employer but increase their appeal.

The graying of America is making it more and more important that people prepare for their own future. Stock ownership is definitely one way to do it.

Urgently yours,

Loren Dunton
President

LD/lca

[ADDITIONAL ATTACHMENTS ARE BEING RETAINED IN THE COMMITTEE FILES.]

AN OPEN LETTER TO THE MEDIA

by

Loren Dunton, President

We take a bad rap in this country because of our low rate of savings. Critics of our free enterprise system point to our dependence upon social security programs as proof that capitalism comes up wanting.

Our financial services industry is losing out to the forces in our society encouraging people to spend, spend, spend. Too often their message to save for the future is taken as self-serving. But it shouldn't be! Every year the necessity for people to hear and respond by saving, investing and insuring more becomes increasingly important.

This shocking look at the future, provided by Helen a. Leonard of the American Council of Life Insurance, underscores the need for us as individuals to wake up. She says in her speeches around the country:

"The graying of America and the increased life expectancy of people over 65 is today's most important and foreseeable demographic trend. It will shape society for the next fifty years."

Now some shockers as to what is already happening in this country:

* There are now 41,000 people 100 years of age or older.
* Two-thirds of all deaths now occur after 65 and 30% after 80.
* Life expectancy when these people became 18 was about 60.
* Life expectancy for someone now 18 is 70.
* Life expectancy for someone born this year is 75.
* For someone born twelve years from now it will probably be 80.

"All these things, plus the fact that millions of people will live to be 90," says Helen A. Leonard, "will mandate great changes for society. As an example, health maintenance for the aged will cost billions."

It is obvious that expecting the government to take care of us in the future is the height of foolishness and preparing for our own future has become an absolute must! Social security for example, will never be able to take care of today's 30, 40 and 50 year olds even as well as it is my fellow 60 year olds or the 70 and 80 year olds. When we were young, there was an average of 15-20 workers paying into social security for every recipient drawing benefits. Now the ratio is 3 to 1 and headed for 2 to 1.

Reductions will have to be made in our Medical Care and Social Security programs. Many pension plans, like those for federal employees, will have to be reduced. These changes will result in it becoming absolutely VITAL that individuals from now on put more discretionary dollars into savings, insurance and investments. We must create millions of new investors in this country, even if it means fewer new cars, campers, personal computers, second cars, VCRs and expensive nights out. Smaller liquor bills, fewer cigarettes, less extravagant travel with less abuse of credit along with wiser spending must become the norm for millions of people...until they have prepared for their own retirement.

It is time for the financial services industry (banking, securities and insurance) to quit fighting over a continually decreasing share of our discretionary dollars. It has become obvious that the forces in our society trying to get people to spend, spend, spend are winning.

Increasing the discretionary dollars being put aside for the future has become essential. Cooperation among those trying to get people to do that is a must. The fight with those who promote over-spending is a fight that they cannot afford to lose...for our sake! Companies, like Franklin Funds, MONY, Hartford Life, Pacific Standard Life, ITT Life, Washington National, GEICO, Colonial Funds, Concap, VMS Realty, IDS Financial Services, Charles Schwab, Wells Fargo and over a hundred others are alreading cooperating through the National Center for Financial Education, a non-profit corporation for public education dedicated to helping people do a better job of spending, saving, investing, insuring and planning for their future.

Their message as well as that of the financial planners, to save, invest and insure for the future is usually perceived as self-serving and discounted by consumers. They must keep driving it home however, and get the message out. More employers must be receptive to installing employee stock ownership plans (ESOPs) so that more and more workers can become owners and acquire capital. Both the private and public sector must help make people aware of what the "graying of America" will mean to us and to our Children.

They, and the NCFE, need the help of the media however, and you can take an important step by publicizing this OPEN LETTER, or at least the message. Especially if you agree with us ...that more insurance, more investments, more savings and more planning for the future is a must for Mr. and Mrs. Average American.

It is the retirees of 10, 20, or 50 years from now who will be the most grateful! You, and the people you care for, could be among them!

With concern,

Loren Dunton, President

July 24, 1987

The Honorable Dan Rostenkowski
U. S. House of Representatives
Washington, D. C. 20515

Dear Congressman Rostenkowski:

Because I participate in an ESOP, I'm convinced that I will have a more secure retirement than if my company had a normal retirement plan. I also believe that our ESOP makes all of us more productive and, therefore, more competitive in world markets.

Please do not change the income tax provisions affecting ESOPs. They should not be used as a new revenue source!

Very truly yours,

Mary E Wilson

Mary E. Wilson
727 South Orange Grove Blvd.
Pasadena, California 91105

ACCESS
SYSTEMS INC

July 30, 1987

Mr. Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski:

It has recently come to my attention that a proposal is presently under consideration by your committee to defer to subsequent fiscal years 20% of the tax deductibility on corporate advertising expenditures.

As the President of a privately held Direct Marketing Organization, I'm writing to express my concern over the adverse impact such a proposal, if enacted, would have on businesses both large and small across our nation.

The degree to which such legislation would seriously hamper the well being of firms whose survival and growth are linked to advertising in order to create awareness of their goods and services or to encourage trial and brand loyalty, should not be underestimated by your committee. Nor should the ill consequence of this proposal on the advertising industry at large.

It is my belief that such a proposal need be addressed in light of the many severe effects that will be brought to bear on companies across a variety of industries. I, for one, would be willing to have the corporate income tax rate raised rather than see one industry uniquely personalized by such a measure.

It occurs to me that there must be other viable, and indeed, more equitable methods by which our nation`s revenue base can be raised. (Perhaps government might look to some of the micro and macroeconomic underpinnings of the business entity and its ability to efficiently distribute wealth.)

Mr.Rostenkowski, I respectfully urge you to explore other, more balanced solutions to our nation's economic quandaries.

Sincerely,

Robert Ingenito - lfe

Robert Ingenito
President/Chairman of the Board

RI:lfe

121 Clove Road
New Rochelle, NY 10801
914/235-9566

ADVERTISING
CLUB
OF
WESTCHESTER
INC

July 22, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways & Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

As Chairman of the Government Relations Committee of the Advertising Club of Westchester, I sincerely request your discontinuance of the consideration of the so-called "20/80 Advertising Tax Deduction" revenue-raising option to offset the Federal deficit.

The Advertising Club of Westchester, with almost 200 paid members, communicates regularly with over 1500 advertising-affiliated companies. We have advised everyone of this option now being considered. Even though you have changed the language used unsuccessfully in the 1986 bill by "deferring" the 20% for one year, it is historically true that "one-year bills" are renewed every year.

Additionally, the adoption of the "80% ad tax allowance" will have the usual ripple effect resulting in cutbacks in advertising spending and this, in turn, would have an adverse effect on sales, employment and the overall economy, etc. ad nauseum.

The Advertising Club of Westchester urges you to examine more carefully other revenue-raising options less harmful to the total economy...and certainly include a more microscopic scrutiny of all government spending.

Your help in deleting this option will not be forgotten.

Sincerely yours,
ADVERTISING CLUB OF WESTCHESTER
Ralph O. Gottlob
Ralph O. Gottlob, Chairman
Government Relations Committee

AHF MARKETING RESEARCH, INC.
20 West 33rd Street, New York, N.Y. 10001 (212) 244-5555

July 14, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

The proposal before the House Ways and Means Committee to defer deductions of 20% of advertising expenses is causing some consternation in my industry --but not in my industry alone.

On the surface, the primary dissenters against such a proposal would seem to be the country's advertising agencies, large and small; after all, they produce the advertising that would be taxed, and enactment of the subject proposal would certainly threaten reduced revenue for them. But other industries would suffer as well: manufacturers who use advertising to present their products to the consumer; packaging industries which prepare salable product presentations for the marketplace; direct mail firms whose sole contact with the consumer is their presentation of products for sale via advertising catalogues; magazines and newspapers whose ability to print is dependent in a large measure on advertising revenue--and radio and television stations which fall into the same ability-to-operate category; research firms which measure advertising believability and effectiveness.

When we speak of such organizations as those underscored above, we're apt to think of them as mammoth companies. They are not always. Many fall into the category of small business firms whose growth could be curtailed by passage of the proposal under study. Even more vulnerable are the thousands of men and women employed by those firms, whose jobs might be expendable in the face of the reduced income spawned by the proposal's enactment (Wharton Econometrics Forecasting Associates estimates a loss of over 110,000 jobs in this country should such a proposal become a reality).

As a concerned citizen, I believe those of us who would be punished are eager to sponsor efficient and responsible methods of increasing revenue and reducing the Federal deficit. But penalizing a segregated number of advertising-related industries--and in the long run their employees as well--does not seem responsible. A relatively few citizens would be bearing the brunt of reduced income (individuals), reduced profits (affected firms), and impaired growth (small businesses), instead of spreading revenue-gathering throughout the citizen population. Efficiency is also questionable: if business firms' profits are decreased, so will be their Federal taxes; if employees have no jobs, the IRS will not receive the funds it may otherwise expect from taxable individual incomes. And from the International Trade point of view, will the affected firms not be prohibited from competing effectively with overseas companies by having advertising, their major consumer sales tool, weakened by their government?

We hope these inequities will be considered when your committee addresses the appropriateness of what might be considered discriminatory tax additions as an answer to the increased-revenue problem. In all fairness, this proposal should not be enacted.

Sincerely,

Arthur LaPorta

Arthur LaPorta
President

U.S. HOUSE OF REPRESENTATIVES

before the

Ways & Means Committee

STATEMENT OF THE AMERICAN ADVERTISING FEDERATION ON THE DEDUCTIBILITY OF ADVERTISING EXPENSES

July 7-9, 1987

Introduction

The American Advertising Federation (AAF) is a national trade association that includes within its membership all of the various elements of the advertising industry. The membership includes national corporations that manufacture and advertise consumer products, major advertising agencies, national newspaper and magazine publishers, radio and television broadcasters, all three networks, 160 college chapters, and approximately 22 other national trade associations with memberships composed of companies engaged in various advertising pursuits. The Federation also represents the "grassroots" of the advertising industry as the parent body of more than 215 local advertising clubs and federations located throughout the United States with a combined membership of approximately 42,000 advertising practitioners. These local organizations, like the AAF, represent a broad constituency, including professionals from advertisers, advertising agencies and media.

SUMMARY OF TESTIMONY

AAF opposes any restriction on the deductibility of advertising expenditures as an ordinary cost of doing business. Advertising is the driving force behind our economy. Advertising fosters competition among and between brands, provides consumers with greater choices, encourages innovation, and results in lower costs to the consumer. It is said that for every dollar spent on advertising, two more dollars are generated into the economy. Furthermore, advertising is the primary, and sometimes only, vehicle of relaying information to the consumer about available products and services.

The Joint Committee on Taxation along with the House Ways and Means Committee staff have prepared a list of options to raise additional revenue to meet current budgetary goals. Despite the critical role which advertising plays in our marketplace, included in these options is a proposal to limit the deductibility of advertising expenses.

AAF maintains that the deductibility of advertising expenses is appropriate and fair, and it ensures a competitive marketplace. We strongly urge members of the House Ways & Means Committee to consider problems that will result from placing limitations on the deductibility of advertising expenses, namely that such limitations would lead to cutbacks in advertising, would fail to bring in anticipated revenue, and would negatively impact overall economic growth in this country.

Specifically, AAF argues that limitations on the deductibility of advertising expenses would:

* not meet the revenue raising targets projected for these proposals and set forth by the Joint Committee on Taxation;

* inaccurately and unfairly assume that advertising has a life beyond one year;

* create unfair barriers to businesses wanting to participate in the economy
  ° advertising would be arbitrarily singled out from other forms of marketing and product promotion
  ° media would pay a double penalty
  ° small advertisers, ad agencies and members of the media would be put out of business
  ° anti-competitive forces would be created making it difficult for new businesses or product lines to enter and compete; and

* create an administrative nightmare.

AAF also opposes denying deductions for advertising expenses for specified product categories, for example tobacco or alcoholic beverage advertising. AAF believes this is really an attempt to discourage the advertising for legal products, which is an inappropriate use of the tax code. Further, AAF is concerned that this will set a precedent which will carry over to other product categories in the future.

LIMITING THE DEDUCTIBILITY OF ADVERTISING EXPENSES WOULD NOT ACHIEVE REVENUE RAISING TARGETS

Ample data exists to show that limiting the deductibility of advertising expenses would lead to cutbacks in advertising, loss of jobs, and an overall decline in the growth of the economy.

A Wharton Econometric Study commissioned by the American Advertising Federation (AAF), the American Association of Advertising Agencies (AAAA), and the Association of National Advertisers (ANA) and released in June, 1986 concluded that a 20% reduction in advertising expense deductions would result in a job loss of 185,000 in the first year alone! This does not even account for additional amortization of the remaining 80% over two years, a measure contained in the list of options recently presented to this committee.

Another option seeking to defer for one year or to amortize over four years 20% of deductions also gives rise to the problem of cutbacks in advertising and job loss. In addition, members of Congress may seek to extend a deferral of deductions year after year; and the Wharton study predicts dire long term economic consequences should 20% of all ad tax deductions be eliminated entirely. It estimated that over a five year period there would be a cumulative loss of $522 per household in real disposable income, a cumulative loss of $76.7 billion in output (1985 dollars); and a cumulative $5.1 billion rise in the national debt by 1994.

LIMITING THE DEDUCTIBILITY OF ADVERTISING EXPENSES IS BASED ON THE ERRONEOUS ASSUMPTION THAT ADVERTISING HAS A LIFE BEYOND ONE YEAR

There is no evidence indicating that advertising has a lasting effect of more than one year, and therefore AAF disagrees that it is appropriate for the government "to provide an assumed allocation of the benefit of such costs by statute." Limiting the deductiblity of advertising expenses would do just that as the rational behind deferring, amortizing or denying deductions rests on the unproven notion that advertising has a benefit extending beyond one year.

Consider the following examples where advertising clearly is intended for an immediate and short term impact, and where it clearly would be unfair and inaccurate to limit ad deductions based on the notion that there is a benefit extending beyond one year:

- retail ads--announcements of a sale which may last a day, a week, or a month
- classified ads--which are rendered useless after the sale or transaction has taken place
- real estate ads
- airline ads, competing on price
- ads for seasonal products, such as snow tires or air conditioners/fans
- political advertising

In each of these cases, it would be difficult to argue that a specified portion of the benefits of advertising would be accrued over and beyond one year. Yet the advertising options before this committee assume that because it is impossible to measure the exact lasting power of advertising, the government should arbitrarily assign one to be applied uniformly across all forms of advertising.

It is important to distinguish the reputation or good-will generated by a product or a service from the advertising of that product or service. Advertising importantly conveys information to consumers about the products and services available; but it cannot create the good-will resulting from a quality product. It is the quality of the product or service delivered that ultimately renders it a reputation among consumers. It is inaccurate to ascribe long term good will to advertising as a basis for delaying tax deductions beyond one year.

LIMITING THE DEDUCTIBILITY OF ADVERTISING EXPENSES WOULD CREATE UNFAIR BARRIERS TO BUSINESSES WANTING TO PARTICIPATE IN THE ECONOMY

All American businesses that advertise would be harmed by a limitation on advertising deductions. Those which rely most heavily on advertising to promote a product or service and relay information to consumers would be impacted most intensely. This includes smaller advertisers and media, newer businesses, and older businesses with new product lines.

Small businesses already face many obstacles. In a competitive economy, they need to advertise to create new markets and to expand their share of existing ones. The failure rate for these businesses already is high; and advertising often is the crucial link to markets, to the consumer, and to sales transactions.

Businesses, in an attempt to survive following a restriction on ad tax deductions will redirect their marketing efforts away from advertising. The use of sales persons, with the attendant costs of their training, will become more popular; and the long term benefits may well be beyond one year. Yet it is advertising that is most arbitrarily being singled out for limitations on annual deductions.

The media, dependent on advertising for revenue, would be strongly impacted in particular. The Wharton Econometric Study predicts that a 20% loss in deductibility would lead to a 4.8% reduction in advertising. Given that television and radio rely exclusively on advertising for revenue, the results would be disastrous for the broadcast medium. Newpapers and magazines also would suffer great losses as a substantial portion of their revenue is derived from advertising as well.

Furthermore, the media would be impacted doubly. Not only do T.V., radio, magazines and newspapers rely on advertising for revenue, but they also are frequently in the position of advertiser themselves. For example, T.V. stations promote new shows, radio stations promote upcoming events, magazines and newpapers promote themselves.

Because advertising is the principle means by which newer businesses and older businesses with new product lines introduce their innovations into the marketplace, limiting advertising deductions would reduce their ability to compete. The risks of innovation would be that much greater--resulting in less competition, fewer choices for consumers, and higher prices.

Advertising stimulates sales. And new products, requiring new markets or sometimes a share of an older market, depend on advertising to compete. At this critical stage, increased costs in marketing a new product or service would only exacerbate an already risky situation, in which most new businesses/product-line fail.

LIMITING THE DEDUCTIBILITY OF ADVERTISING EXPENSES WOULD CREATE AN ADMINISTRATIVE NIGHTMARE

Implementing a system where advertising expenses could not be fully deductible in one year would give rise to whole host of administrative problems. First and foremost, how would advertising be defined? There is no readily usable definition of advertising that could be applied in this situation. How would advertising be distinguished from other forms of promotion? Second, what precedent will this set for amortizing or delaying deductions for other kinds of expenses?

DENYING DEDUCTIONS FOR ADVERTISING EXPENSES FOR SPECIFIED PRODUCT CATEGORIES WOULD BE INAPPROPRIATE AND UNCONSTITUTIONAL

AAF opposes denying deductions for advertising expenses for specified product categories, for example tobacco or alcoholic beverage advertising. AAF is concerned that this is really an attempt to discourage the advertising for a legal product by using the tax code, which is highly inappropriate and sets a dangerous precedent that will be carried over to other lawful product categories in the future. The ramifications of this option extend far beyond the tobacco and alcoholic beverage industries and into the advertising of all products in general.

AAF also believes that this option is unconstitutional for several reasons. First, it is a defacto ad ban, and the Supreme Court has held that truthful advertising for legal products is protected under the free speech provision of the First Amendment of the Constitution. Central Hudson Gas & Electric Corp. v. Public Commission of New York (1980).

Second, denying advertising deductions for specified product categories results in discriminatory tax policies. Since tobacco and alcohol advertisers are the only business groups that would lose the ability to deduct advertising expenses, this legislation impinges on their First Amendment rights to advertise their products in a truthful manner. The Supreme Court struck down such discriminatory tax policy in the past, when directed at certain newspapers as being "a deliberate and calculated device in the guise of a tax to limit the circulation of information." Grosjean v. American Press Company, Inc. (1936).

CONCLUSION

The American Advertising Federation urges the House Ways & Means Committee to consider the many problems inherent in the revenue raising options that limit advertising deductions. First, there are the economic problems--the anti-competitive forces barring new business/new product entry into the marketplace, the additional costs putting smaller advertisers and media out of business, the discriminatory effects which ultimately will discourage advertising and favor other forms of marketing and promotion, the slow down in economic growth which will fail to bring in anticipated revenue. Next, limiting advertising deductions is based on the false notion that benefits from advertising extend beyond one year. Numerous examples of advertising in this testimony demonstrate this point. Furthermore, advertising is a legitimate cost of doing business. It is one part of a long chain of events that goes into developing and marketing products and services. AAF firmly believes that it has been demonstrated time and again that limiting deductions for advertising expenses will do much damage to the economy and will fail to bring it the revenue expected.

Respectfully Submitted,

Howard H. Bell
Howard H. Bell
President
American Advertising Federation

Wallace S Snyder
Wallace S. Snyder
Senior Vice President for Government Relations
American Advertising Federation

July 7, 1987

Comments of the
AMERICAN NEWSPAPER PUBLISHERS ASSOCIATION
to the
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
on
Deductibility of Advertising Costs
July 10, 1987

The American Newspaper Publishers Association (ANPA) is a non-profit trade association, representing nearly 1,400 newspapers. ANPA members account for about 90 percent of U.S. daily and Sunday newspaper circulation. Many non-daily newspapers also are members.

ANPA opposes any revenue proposal which would limit the tax deductibility of advertising costs as a normal business expense. Discrimination against advertising among the many costs of doing business would be unwise public policy. Government action which discourages speech, including commercial speech, is contrary to sound basic concepts in our society.

DISCRIMINATION AGAINST ADVERTISING EXPENSES

Section 162 of the Internal Revenue Code provides for the full deductibility of ordinary business-related expenses. Proposals to disallow a portion of advertising expenses as a business deduction incorrectly assume that advertising costs are not legitimate business expenses and arbitrarily single out advertising from other business costs for unfavorable, or less favorable, tax treatment. Businesses that sell retail consumer products would directly face the impact of such proposals; businesses that do not sell consumer products would be relatively unaffected.

Advertising sells consumer products. Without advertising, sales volume falls. Government action to make advertising more expensive for businesses likely will result, especially in the first year, in reduced advertising. Such action is likely to lead to reduced product sales, to act as a depressant on local economies and to foster job losses.

EFFECT ON NEWSPAPERS

Newspapers, like other businesses, would find their own advertising more expensive under such proposals, but the more severe burden on newspapers would come from the reduced revenue base which would result. Retail advertisers, especially in the first year, likely would decrease their advertising linage rather than attempt to absorb the increased tax burden. They would be hard-pressed to spend more after-tax dollars on advertising than they had budgeted. Because newspapers depend primarily on local retail advertisers, reduced advertising cost deductions would severely affect newspapers.

Newspapers with reduced advertising revenues must cut their own costs. Publishers would be forced to consider such options as reducing the local news staff, reducing the number of pages published, and ending delivery in outlying parts of the circulation area. The most vulnerable newspapers would be those with marginal profits in competitive urban or suburban markets, and dailies and weeklies publishing in communities with already depressed economic conditions.

The contention that the benefits of advertising extend beyond the year of the expenditure is false. Studies by the Newspaper Advertising Bureau indicate most advertising messages are forgotten very rapidly. A message that is not consciously remembered may still have effect but only when it is reinforced through repetition. In addition, most newspaper advertisements are placed by local retail merchants who are interested in moving products within the day or week that the ad appears. A check of any newspaper issue will show a preponderance of "sale" ads over "institutional" ones. There is little if any residual impact from the kind of retail price advertising which is the predominant revenue source of local general circulation newspapers.

Readers use the newspaper as a daily catalogue of merchandise, services, comparative prices, sales and style information. Because of this, successful newspaper advertisements reflect the same sense of immediacy that exists in the news columns. The job hunter searches the classified advertisements with the strongly focused purpose of finding employment, now. Likewise, the reader in the market for a new suit will study the newspaper's advertisements to get ideas on the specifics of style and pricing before going shopping. Grocery, drug store and many other newspaper advertisements are aimed at comparison shoppers. The benefits derived from such advertising clearly are realized in the short term.

ATTEMPT TO LIMIT FREEDOM OF COMMERCIAL SPEECH

ANPA is concerned about any governmental action which could discourage speech, including commercial speech, in a free society.

Limiting advertising expense deductions would constitute a governmental action reducing, in practice, the level of commercial speech and the flow of information to consumers in our society. Like proposals to deny the deductibility of advertising for some lawful products, this proposal also offends the free speech concepts valued by an informed citizenry in a free society dependent upon a free flow of information.

CONCLUSION

There are other reasons why a limitation on advertising costs as tax deductible business expenses would be poor public policy. These include the administrative difficulties in defining "advertising," the contrary nature of such action in relation to current tax accounting principles, unfairness between businesses which must advertise heavily and those which advertise little or none, and its effect on competition. But ANPA's central concerns have been explained above. For all of these reasons, ANPA urges the Congress to reject any proposal to limit, deny or delay the deductibility of advertising expenses.

ANA
ASSOCIATION OF NATIONAL ADVERTISERS, INC.
155 EAST 44TH STREET, NEW YORK, NY 10017 • (212) 697-5950
MEMBER, WORLD FEDERATION OF ADVERTISERS

July 16, 1987
A.N.A.'s 77th Year

Chairman Dan Rostenkowski
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Association of National Advertisers (A.N.A.), I am writing to express our deep concern over legislation pending in the House Ways and Means Committee which would disallow tax deductions for advertising expenses for tobacco products and alcoholic beverages.

These bills would unjustifiably constrict the flow of commercial information. By eliminating the deductibility of tobacco products and alcoholic beverage advertising expenses, they would burden speech concerning those products by making them inordinately expensive. Using the tax code in this way is bad policy and threatens First Amendment values.

These and similar proposals have been widely condemned. The President of the American Bar Association, Eugene C. Thomas, specifically has criticized attempts to disallow tax deductions for advertising of disfavored products, "There is a serious legal problem to the use of (the) tax code for social engineering."

Barry Lynn, Legislative Counsel of the American Civil Liberties Union, testifying for the ACLU, emphasized that "We must state our unequovical opposition on First Amendment grounds to these measures as a means to raise revenues."

Noted constitutional scholar Burt Neuborne of the New York University School of Law has stated, "Selective rigging of the price of speech is nothing more than a sophisticated attempt by the government to control information flow. As such, it is fully as objectionable as a flat ban."

The United States Supreme Court repeatedly has stated that discriminatory taxation of speech is unconstitutional. "It is seen to be a deliberate and calculated device in the guise of a tax to limit the circulation of information." Grosjean v. American Press Company, 297 U.S. 233 (1936). The United States Supreme Court in Speiser v. Randall, 357 U.S. 513, 518 (1958)

(Continued...)

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recognized, "Speech can be effectively limited by the exercise of the taxing power." The Court in that case emphasized, "It cannot be gainsaid that a discriminatory denial of a tax exemption for engaging in speech is a limitation of free speech." Id. at 518.

The United States Supreme Court has made clear that the First Amendment forbids the use of discriminatory tax treatment for the suppression of disfavored commercial speech. When the Court has upheld denials of tax exemptions in connection with speech-related activity, it always has stressed that the restrictions could not have survived scrutiny if they had favored some speech over other speech on the basis of its content, e.g. Regan v. Taxation with Representation, 461 U.S. 540, 548 (1983); Cammarano v. United States, 358 U.S. 498, 513 (1959).

In introducing legislation to ban the tax deductibility of alcohol and tobacco products, an attempt has been made to mask this coercive purpose. The proponents of this legislation state they they are merely ending a government "subsidy" for products they consider harmful. But the advertising expense deduction is no more a "subsidy" than the payroll expense deduction. Under our tax system, the government taxes only net income -- not costs reasonably incurred in producing income. The advertising expense deduction simply applies this principle.

Even assuming, for the purpose of argument, that advertising expense deductions are a government subsidy, Congress still could not constitutionally allocate such deductions solely to businesses whose speech the government approved. The Postal Access Cases affirm this principle. In those cases the Supreme Court has repeatedly held that use of the Postal System may not be constitutionally limited to mail containing information which the government approves. U.S. Postal Service v. Council of Greenburgh Civic Association, 453 U.S. 114, 141-42 (1981); Bolger v. Young's Drug Products Corp., 463 U.S. at 80; United States v. Van Leewen, 397 U.S. 249, 251-52 (1970).

Making advertising for particular products inordinately expensive by eliminating the advertising expense deduction may appear to be a less direct approach than an outright ban, but it is no less damaging to the First Amendment. Censorship is contagious even when it is hidden under the guise of tax policy. Once we start down this road, we will move quickly beyond tobacco and alcohol products to many other categories of advertising.

The Association of National Advertisers on behalf of our members strongly urges rejection of these counterproductive proposals.

All best wishes.

Sincerely,

DeWitt F. Helm, Jr.

DeWitt F. Helm, Jr.

cc: Members of the House Ways and Means Committee

1119R

Bill Automotive Group

JOBBER RETAILER
MODERN TIRE DEALER

Russell A. Piersons
Publisher

August 10, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I am writing you on behalf of Bill Communications, Inc., a publishing company headquartered in New York City. Our monthly magazines originating in the Akron, Ohio, office are MODERN TIRE DEALER and JOBBER RETAILER.

We are disturbed to learn that your Committee on Ways and Means is exploring the taxing of advertisers by limiting the percentage that businesses may deduct to 80% in the year they occur. Such action would be extremely harmful to all publishers whose peridocals carry advertising because it will adversely affect the amount many businesses can budget for the promotion of their products and services in magazines such as ours.

In addition, this would result in a reduction of jobs using advertising as a marketing tool. Advertising plays a crucial role in the sale of goods in this society. Those sales generate corporate income which, of course, is taxed. If manufacturers cannot deduct their advertising expenses, they may very well decide not to advertise and America will lose even more of its share of the market.

We urge you to oppose such a tax if it comes before your Committee. There must be more acceptable methods of raising revenue than penalizing advertisers who are bringing vital information to the citizens of a free society.

Sincerely,

Rusty

Russell A. Piersons
Publisher

/slj

cc: Bernie Kovach

110 N. Miller Road • P.O. Box 5417 • Akron, Ohio 44313 • (216) 867-4401

MCI Mail The nation's new postal system.

July 27, 1987

REP. DON ROSTENKOWSKI
HOUSE WAYS & MEANS COMMITTEE
HOUSE OF REPRESENTATIVES
WASHINGTON, DC
20515

I. SWITZER
CABLE TELEVISION & TELECOMMUNICATIONS ENGINEERING
1354 - PRIMAVERA DRIVE EAST
PALM SPRINGS, CA
92264
619/323-7243

1987 July 27

Rep. Don Rostenkowski - Chairman
House Ways & Means Committee
House of Representatives
Washington, DC
20515

Hello.....

I note reports that your committee is studying proposals to limit the deductibility of advertising expenses. There is a rationale for making most advertising expenditures completely non-deductible. Most advertising expenditures confer a substantial benefit on the "recipient" - e.g. ad's placed on television, radio, in newspapers, magazines, etc. subsidize these valuable entertainment and information services to the public. Since it is probably not practical to impute taxable benefits to individual TV viewers, radio listeners, magazine and newspaper readers, it is appropriate to eliminate the deductibility of these expenditures.

If you limit the deductibility of "three martini lunches" you should, for similar reasons, limit deductibility of entertainment expenditures of ALL kinds.

Sincerely

I. Switzer.

DAVID L. GOODMAN
Vice President
Public Affairs and
Marketing Services

August 13, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 LHOB
Washington, D.C. 20515

RE: MAINTAIN FULL AND IMMEDIATE DEDUCTIBILITY OF ADVERTISING COSTS

Dear Mr. Chairman:

The Clorox Company generates sales of $1.1 billion annually by manufacturing and marketing household products, architectural coatings, and food products. Our four plants in Illinois produce Clorox laundry and household specialty products, Prince Castle equipment for the food service industry, Olympic architectural coatings, and Hidden Valley Ranch salad dressing. The purpose of this letter is to request your support for the retention of full and immediate deductibility of advertising expenses.

Society places a high value on economic growth, and advertising is a productive business expense that expands real output by generating sales. In addition, advertising is the only viable method by which Clorox and other companies introduce new products and enter new markets. We are convinced that Congress retained the advertising expense preference in the Tax Reform Act of 1986 to further these policy goals.

Clorox invests heavily in research, development, production, distribution, personnel, and good community citizenship. After all this, it just doesn't make sense to create a tax bias against advertising -- the most efficient means of creating and maintaining consumer demand for quality products.

Proposals to change the treatment of advertising costs under the Tax Code have been put before Ways and Means for consideration. We hope that you will work to defeat these counterproductive proposals as they appear. Goods-producing industries need all the help they can get.

Sincerely,

David L. Goodman

DLG:awh

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P.O. Box 24305
Oakland, California
94623-1305
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OF COUNSEL
PAUL LITTLE
HOUSTON, TEXAS

June 26, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
Room 1102
Longworth House Office Building
Washington, D.C. 20515

Re: Advertising Expense Deductions

Dear Mr. Chairman:

One of the proposals to raise revenue which has been suggested for consideration by the Ways and Means Committee is a proposal which would limit the current deductibility of advertising expenses. Suggestions for limiting the advertising expense deduction take the form of denial of part of the deduction or the amortization of the deduction over more than one year. The perceived reason for limiting the deduction is that some of the benefit obtained as a result of an advertising expense is realized in a year subsequent to that in which the expense has been incurred. The proposal is attractive since there is a substantial amount of revenue involved. According to the Joint Committee on Taxation, as much as 13.1 to 25.8 billion dollars over a five year period is involved, depending upon the form of the proposal.

On behalf of The Coca-Cola Company, I respectfully suggest that the current deductibility of advertising expenses should be retained for the following reasons:

(1) Taxpayers advertise their products to create or increase current demand for their products. It is well known that if advertising is stopped the demand for the product will lessen. Furthermore, advertising expenses are incurred year after year, which strongly suggests that there is no anticipated benefit in future years. These facts strongly support present law, which is that advertising expenses are ordinary and necessary business expenses which are currently deductible.

(2) If there is any benefit which might be derived in a future year, such benefit is probably minimal and in any event is impossible to estimate.

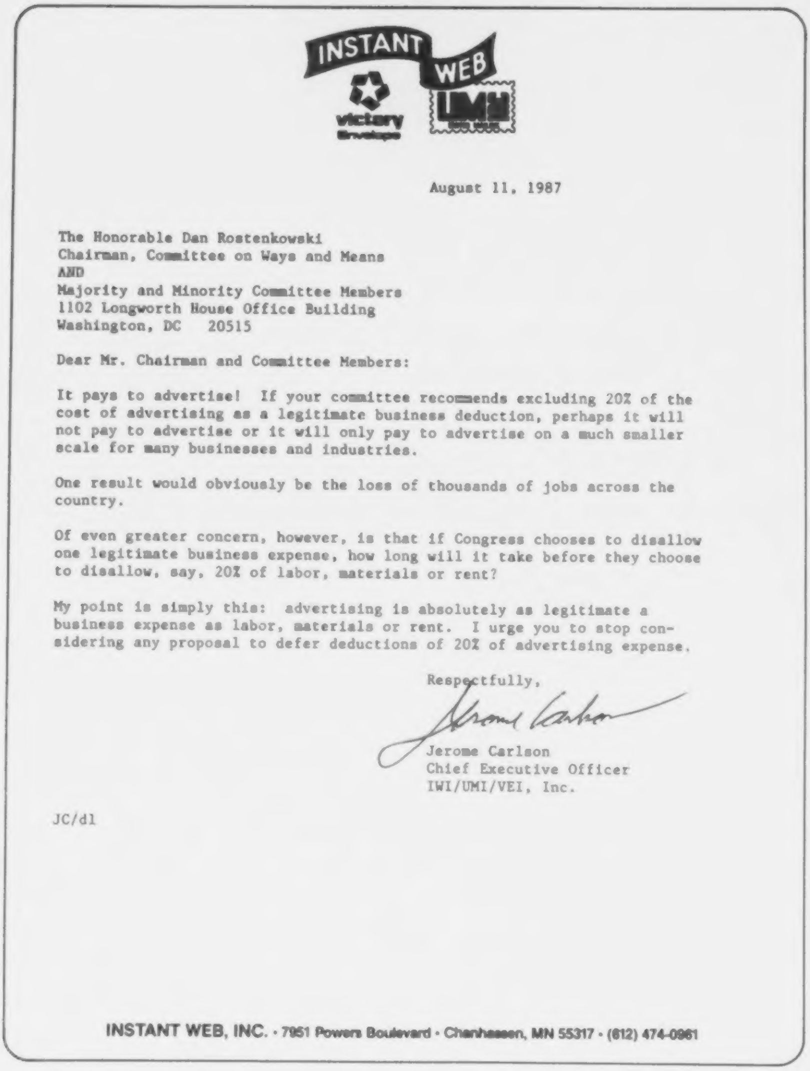
(3) As the Supreme Court of the United States said in Lincoln Savings and Loan, 403 U.S. 345 (1971), many expenses concededly currently deductible have a prospective effect beyond the taxable year. If advertising expenses are not currently deductible on the grounds that some future benefit might be obtained in a subsequent year, then many expenses should also not be currently deductible in full for the same reason. For example, salaries paid to employees should not be deductible currently in full since in a great many cases some of the services they perform create benefits in future years.

(4) Further, the proposal would result in arbitrary taxation in that it would increase the tax on the income of retailers who advertise but not on that of manufacturers and wholesalers who do little or no advertising. Also, the proposal would result in substantial definitional problems in determining when a selling expense is an advertising expense as distinguished from a marketing expense. For example, it would be necessary to determine whether promotional sales in grocery stores, which clearly only have a benefit for a few days, constitute advertising or marketing expenses.

In short, this proposal runs clearly contrary to our system of taxation which allows a current deduction for an expense unless it creates a definite measurable benefit for a future year. Certainly, revenue enhancement alone should not be a sufficient reason to make such an arbitrary and fundamental change in the tax laws.

Sincerely yours,

William P. McClure



INSTANT WEB
victory Envelope
UMI

August 11, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
AND
Majority and Minority Committee Members
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman and Committee Members:

It pays to advertise! If your committee recommends excluding 20% of the cost of advertising as a legitimate business deduction, perhaps it will not pay to advertise or it will only pay to advertise on a much smaller scale for many businesses and industries.

One result would obviously be the loss of thousands of jobs across the country.

Of even greater concern, however, is that if Congress chooses to disallow one legitimate business expense, how long will it take before they choose to disallow, say, 20% of labor, materials or rent?

My point is simply this: advertising is absolutely as legitimate a business expense as labor, materials or rent. I urge you to stop considering any proposal to defer deductions of 20% of advertising expense.

Respectfully,

Jerome Carlson

Jerome Carlson
Chief Executive Officer
IWI/UMI/VEI, Inc.

JC/dl

INSTANT WEB, INC. · 7951 Powers Boulevard · Chanhassen, MN 55317 · (612) 474-0961

JOE BUCHOLT
PRINTING LTD.
333 HUDSON STREET
NEW YORK, N.Y. 10013
(212) 929-2373

July 14th, 1987

Committee on Ways and Means
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Gentlemen:

I understand that your Committee is considering a proposal to allow only 80% of deductibility of advertising expenses, with 20% in the following year.

I'm a small businessman in an already hard-hit industry. Advertising budgets are now being cut,contributing to severe hardship in the printing industry.

The proposal could be one more "nail in the coffin".

I hope your Committee will reject the proposal now before it.

Very truly yours,
Joe Bucholt
Joe Bucholt

JB:ps

KOIN-TV
Mick Schafbuch
Vice President
General Manager

August 12, 1987

Dan Rostenkowski
Representative
1102 Longworth H.O.B.
Washington, D.C. 20515

Dear Dan:

I am very concerned about the proposal to limit the amount advertisers may deduct from their federal taxes for the cost of advertising on KOIN-TV or other media outlets. I hope you will do your utmost to ensure that this proposal is terminated.

Advertising is our only source of revenue at KOIN-TV. This tax-generation proposal would reduce advertising revenue by approximately 5%. And, it would reduce the profits by 15-20%.

KOIN-TV has experienced three consecutive years of flat revenue and flat profits. We are, like many others, experiencing the doldrums of Oregon's economy. And, we are much better off than our competition - both radio and television stations! A further reduction in revenue and profits would only cause us to add to the woes of the economic climate here in Oregon.

I also wonder if this proposal isn't some non-traditional way to limit freedom of commercial speech. It penalizes those who market their products through advertising to consumers. Therefore, manufacturers, wholesalers, and direct sellers of consumer products will pay less tax than ordinary retailers because they have far less (if any) advertising expenses. This makes no sense, Senator. The proposal is therefore wholly arbitrary.

Advertising is an essential function in a competitive marketplace. It allows new products to enter markets, it encourages greater productivity and competition and it has an important multiplier effect in our economy. There is absolutely no articulated government policy to be served by discouraging advertising, which this proposal would certainly do.

Advertising is a sales cost - just like salaries, just like distribution. Please don't treat it any differently. This proposal would also result in lost jobs, and increased costs of advertising for businesses with a corresponding drop in profits and in taxes paid by those companies.

I oppose any limitation on the deductibility of advertising expenses, and hope you agree.

Best personal regards,

Mick

RMS:lmo

A CBS Affiliate KOIN Center — 222 Southwest Columbia Street, Portland, Oregon 97201 (503) 243-6666

KUGN AM/FM
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August 25, 1987

Dan Rostenkowski
Representative of Illinois
1102 Longworth H.O.B.
Washington, D.C. 20515

Dear Representative Rostenkowski:

I want to take this opportunity to voice my strong personal opposition to any change in the tax code that would reduce the deduction that a business may claim for advertising expenses.

As you know, advertising promotes competition in the market place and provides consumers with the facts needed to make informed purchase decisions. It is my firm belief that Congress should not be in the business of establishing disincentives to free enterprise and advertising is obviously a normal cost of doing business....one that should be treated as a full deduction.

Our Constitution guarantees to each individual the right to "free speech". I truly believe that taxing advertising is taxing "free speech", a violation of our First Amendment rights.

In summation, reducing the advertising deduction will reduce valuable information that consumers need. It will hurt small businesses first, and all for a relatively small source of new tax revenue for the federal government. I encourage you to oppose such a tax increase.

Sincerely,

Chuck Chackel

Chuck Chackel
Vice President/General Manager
KUGN AM-FM

CC:dg

DIVISIONS OF OMNI BROADCASTING CORPORATION

STATEMENT OF THE
NATIONAL NEWSPAPER ASSOCIATION
BEFORE
THE WAYS AND MEANS COMMITTEE OF
THE UNITED STATES HOUSE OF REPRESENTATIVES
CONCERNING PROPOSALS
TO ALTER THE TAX TREATMENT OF THE
BUSINESS DEDUCTION FOR ADVERTISING EXPENSES

JULY 15, 1987

INTRODUCTION

The National Newspaper Association (NNA) is a national trade association that represents the interests of daily and weekly newspapers throughout the country. Founded in 1885, and with over 5,000 member newspapers, NNA is the oldest and largest trade association in the newspaper industry.

NNA opposes any revenue-raising option which would deny either in total or in part, a tax deduction for legitimate advertising expenditures as an ordinary business expense. NNA also opposes any option which would treat advertising as a depreciable asset, for such an option is based on the flawed assumption that all advertising has a life beyond one year. Either of these approaches single out advertising expenses from other legitimate business expenses, heavily penalizing the retail sector of the economy. Further, the task of defining, in a principled fashion which is consistent with traditional tax policy, exactly what is and is not "advertising" is no simple task.

Finally, any government action to make advertising more expensive for businesses likely will result in reduced advertising. Because advertising is designed to inform the consumer of the availability of goods and services in a timely manner, a reduction in advertising would likely lead to reduced product sales. Reduced product sales could in turn lead to downturns in local economies--particularly those which are currently depressed-- and could have a negative impact on employment. Any limitation on advertising deductibility would particularly burden the newspaper industry which receives 70 percent or more of its total revenue from advertising.

ADVERTISING AS A COST OF DOING BUSINESS

Section 162 of title 26 of the United States Code provides for the full deductibility of ordinary business-related expenses. By doing so, the section implements the net income concept of this country's tax system.

For over 70 years the federal government has taxed profits, not gross income, in recognition of the principle that the portion of gross income equal to the cost of earning that income should not be taxed. To break that principle and start denying deductions for particular types of expenses which are necessarily incurred in the ordinary course of doing business makes no sense.

Advertising expenses are no different than other marketing expenses or manufacturing expenses. Advertising is just as necessary and legitimate as other marketing expenses or as any manufacturing expense. To single out advertising expenses is to discriminate, without any rational basis, against advertising and the industries which depend upon it.

NEWSPAPER ADVERTISING IS A CURRENT EXPENSE AND NOT AN ASSET

Forcing all or part of newspaper advertising costs to be amortized rather than deducted likewise makes no sense. Most newspaper advertising, because of the nature of the retail and service industries, is immediate. It has no residual effect beyond the scope of the immediate future, which is certainly less than a year.[1/]

The proposal to amortize advertising is based on a suggestion that some benefit of advertising carries over beyond the year in which the expenses are incurred. The overwhelming volume of newspaper advertising is designed to alert the consumer to the availability of a certain product or service, at a certain price, under certain conditions, and often at a specific location. Newspaper advertisements are not placed to build a product image. There is little, if any, residual impact from the kind of retail/price/service advertising which is the predominant revenue source of local newspapers.

Readers use the newspaper as a daily catalogue of merchandise, services, comparative prices, sales and style information. Successful newspaper advertisements reflect a similar sense of immediacy as that which exists in the news columns. The job hunter searches the classified advertisements with the hope and intention of finding a job, and finding it now. Likewise, the reader in the market for a new suit will study the newspaper advertisements to get ideas on the specifics of style and pricing before going shopping, and going shopping now. Grocery, automobile, drug store, and even bank rate advertising are aimed at comparison shoppers. Readers will check for the latest sales and best deals available at each point in time.

Take the following situations where advertising is clearly intended for an immediate impact, and where it would be unfair and inaccurate to limit ad deductions based on the notion that there is a benefit extending beyond one year:

> --Announcements of a special sale which will last only a day or two (Fathers' Day Sale, Valentine's Day Sale, Christmas sales, etc.).
>
> --Classified advertising proposing the sale of new or used goods, such as automobiles, which are rendered useless after the sale or transaction takes place, even though the ad may still have a day or two to run.
>
> --Real estate advertising.
>
> --Airline advertising announcing the best price to the West Coast.
>
> --Advertising for snow tires placed immediately after the first snow, or advertising for air conditioners or fans placed in Washington D. C. newspapers

---

[1/] And in most cases, less than a week or two, often only a day or two.

immediately after the first wave of heat and humidity.

There are thousands of parallel examples.

In each of these cases, the benefits from advertising are realized only in the short term. Yet the options before the Ways and Means Committee seem to assume that because it is impossible to measure the exact lasting power of advertising, the government should arbitrarily assign a particular length to be applied uniformly across all forms of advertising.

It is important to distinguish the reputation or good-will generated by a product or a service from the advertising of that product or service. Newspaper advertising conveys information to consumers about products and services available; but it cannot create the good-will that results only from product or service quality. It is the quality of the product or service delivered that ultimately creates a reputation among consumers. It is inaccurate to ascribe long term good will to newspaper advertising as a basis for delaying tax deductions beyond one year.

THE PROBLEMS OF DEFINING ADVERTISING

A fundamental problem with the proposal to limit the deductibility of advertising expenses is how to define what will or will not be considered "advertising." Advertising is a marketing concept, part of the overall marketing/sales process. Thus, the problem arises in trying to distinguish between advertising and promotional expenses on the one hand and fully deductible selling expenses on the other.

The IRS would be forced to try to draw the lines which rule one type of marketing expense "advertising" and another not. Much of the advertising activities of a business, however, would fall into gray areas in which precise definitions would be extremely difficult and extremely technical to make. For example, would the salary of a marketing director be divided between advertising and non-advertising activities, some fully deductible and the rest only partially so? What about the salaries for trainees? Are public relations and research and development costs part of advertising expenses, marketing expenses or both? What about salaries and other expenses associated with commercial art departments?

There are many other expenses which would fall somewhere among advertising costs, marketing costs, and normal business operating costs. For example, is an ad in the local Yellow Pages really advertising or is it considered an "ordinary and necessary expense" incurred by most businesses? What about building signs, office signs, business cards and white pages entries? These are expenses incurred by any business whether they actually advertise their product or simply process raw materials for use by someone else. For the raw materials manufacturer, those costs may not be considered advertising, but for those whose business cards may reinforce a particular brand name or company, they may very well be part of the advertising costs.

What about retail business which, in order to draw customers into their stores, conduct free drawings to give away prizes such as automobiles? Would the price of the prize be considered an advertising expense?

EFFECT ON NEWSPAPERS

As a result of a decreased ability to deduct advertising expenses, retail advertisers would have fewer after-tax dollars available to spend on advertising. They would therefore decrease their advertising linage rather than attempt to absorb the increased tax burden themselves. As a result, the number of advertisements placed would decrease, as would a newspaper's revenue base, in some cases significantly.

NNA estimates that 70 percent or more of a newspaper's total revenue comes from advertising, most from retail and service industries, and that the figure is perhaps as much as 80 or 90 percent for weeklies. All newspapers depend primarily on local retail advertisers, and newspapers with reduced advertising revenues are forced to cut costs through smaller news staffs and smaller news holes. The most vulnerable newspapers would the marginal ones in highly competitive markets, and dailies and weeklies publishing in communities with already depressed economic conditions.

In many cases rural papers are the only source of news and other local information in the communities they serve. If these papers are forced out of business or forced to significantly reduce their service, the citizens of their communities would suffer. They would be left with a reduced or without any regular and dependable source of local information.

Thank you for considering our views.

Ralph Gordon
& Associates PUBLIC RELATIONS · ADVERTISING · PROMOTION

July 22, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways & Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

As a two-person advertising/public relations agency trying to continue making a living, we urge you to drop your consideration of the "20/80 Advertising Tax Deduction" option to raise new revenue to offset the Federal deficit.

It seems to us that most new fees levied, taxes restructured, regulations deregulated, allowances discontinued, etc., always hurt the small business man the most. WHY?

Could this be a case of "you always hurt the one you love"? I'd rather do without your love, even though I'm a lover - not a fighter!

Please don't endanger our business with an 80% advertising deductibility, which will only result in general advertising cutbacks. Sharpen your pencils and cut your spending!

We can't afford a "20/80 ad tax deduction" and you can't afford it either.

Thank you for dropping this possibility before it becomes a reality.

Sincerely yours,
RALPH GORDON & ASSOCIATES
Ralph Gordon
Ralph Gordon

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CONN. OFFICE · P.O. BOX 11 · GILMAN, CONNECTICUT 06336

Sierra Cascade

P.O. Box 159 / Medford, Oregon 97501 / (503) 779-1550

August 28, 1987

The Honorable Dan Rostenkowski
Chairman of the Committee
on House Ways and Means
United States House of Representatives
Longworth House Office Building
Independence & New Jersey Ave.,S.E.
Washington, D.C. 20515

Dear Congressman Rostenkowski:

As you know, better than I, there are a number of proposals before Congress having to do with increased taxes to offset the Federal deficit. As a small-market broadcaster, two of those proposals are bothersome to me. They are the 80% advertising expense deduction, as opposed to the normal 100%, and the proposal to deny advertising deductions for beer and wine.

Research available to broadcasters indicates that these proposals would have a devastating effect on small-market radio and television stations, that profits could disappear.

A major point in opposition is that in this world, our system of distribution of services and product is by all measures the best, and the equation creating this successful system includes as a basic, advertising. To single out advertising from other normal business expenses, to "pick up the check" for the deficit is to harm the goose that lays the nation's golden egg. It makes no more sense to put the burden on advertising than it would employee salaries, electrical power bills, etc.

I would ask you to oppose any tax proposal that would do harm to our system of service and product distribution, and devastate small-market broadcasting, including my KMFR-AM and KTMT-FM here in Medford.

Sincerely,

Ray Johnson
President

KMFR AM
Medford, OR

ktmt FM
Medford, OR

Times Mirror

Times Mirror
Times Mirror Square
Los Angeles, CA 90053
213 237-2900

David Laventhol
President

July 9, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

It is our understanding that the Committee on Ways and Means is considering a proposal to eliminate or defer 20 percent of the tax deduction currently allowed for business advertising costs.

The Times Mirror Company, whose media holdings include the Los Angeles Times and other major newspapers, broadcast and cable television properties, book and magazine publishing companies, and other information service enterprises, strongly opposes such a change in taxation and urges you to reject this proposal.

We believe this tax is ill-advised for at least three important reasons: it is not fair; it would inhibit economic growth; and it is very likely unconstitutional.

This proposal singles out for harsher tax treatment only one of several steps in the production and distribution process by which all goods and services are marketed and consumed in this country. It is no exaggeration to say that this one element is the most important of all, for no matter how good the product or service may be, it will not be sold without being known, and it will not be known without some form of advertising.

This fact leads inescapably to the second major public policy concern raised by this proposal. Most of the economic growth the United States has enjoyed in recent years has been generated by new businesses bringing new products and services to the market place, and creating new jobs by the millions in the process.

(Continued)

Their success--indeed, their survival--has depended in large measure on their ability to make their wares known to the marketplace as cheaply and frequently as possible. More established companies, too, are constantly developing new products and services and new features of old favorites, and advertising is as much a necessity for them as for the fledgling enterprise.

To raise the cost of this very important business function, as this tax proposal would do, is both to endanger the vitality of our economy and to render American products and services still less competitive in world trade.

Finally, the courts have consistently ruled in recent years that advertising is commercial speech entitled to substantial protection under the First Amendment, which states in pertinent part that "Congress shall make no law ... abridging the freedom of speech." Such a law is precisely what this tax proposal would entail.

We in the news media can make great volumes of information available to citizens at minimal cost only because we rely for a substantial part of our revenues on those advertisers wishing to reach the audience we provide. Changing this economic formula--as the proposal in question would surely do--would not only place a greater economic burden on the advertiser, but ultimately on the news consumer, as well. This result can scarcely be said to enhance the flow of information on which a self-governing society greatly depends.

We appreciate this opportunity to share our strongly held views on this subject, and we would be very much interested in knowing your views on the subject, also.

Sincerely,

David Laventhol

DAL:bt

TYPOGRAPHIC SALES, INC.

July 16, 1987

Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
House of Representatives
Room 1102, Longworth House Office Bldg.
Washington, D.C. 20515

Dear Mr. Rostenkowski:

I understand the Ways and Means Committee is currently considering a proposal to defer deductions of 20% of advertising expenses as one of several possible revenue generating proposals. As President of a graphic arts supplier to the multi-billion dollar magazine industry I am strongly opposed both as a businessman and as a supplier, to any tampering with the deductibility of legitimate business expenses. Advertising is a very necessary, desirable and legitimate cost of doing business.

We all know that a balanced budget makes good economic sense, but arbitrarily singling out an ordinary and necessary business expense is not the method that is in the best interest of the American public.

A Wharton economic study conducted in 1986 revealed that the number of jobs in the United States that would be lost during the first year of a reduction in the deductibility of advertising to be in excess of 110,000. Our country cannot afford to pay this drastic of a price.

I strongly urge you and your fellow committee members to retain the existing advertising business expense deduction.

Most sincerely,

Ralph E. Hoffman

Ralph E. Hoffman
President

1035 Hanley Industrial Court • St. Louis, Missouri 63144 • Telephone 314-968-6800

[redacted]

July 15, 1987

Honorable Dan Rostenkowski
Chairman
House Ways and Means Committee
CONGRESS OF THE UNITED STATES
Washington, D.C. 20515

My dear Congressman Rostenkowski:

I understand that your committee is considering a proposal to defer 20% of all advertising expenditures from income statements. If I understand correctly, a company that has expended $100,000 for advertising will only be allowed to deduct 80% from their profit, or $80,000.

I sympathize with your problem of trying to find additional revenues in a form that would be passed by the President, and this measure could be one of them.

Advertising has always been a scapegoat of pseudo-economists who think that advertising is an expenditure mostly wasteful (admittedly some of it is) and that therefore it is a burden on the economy rather than the grease that makes the wheels turn.

If the ordinary business cannot deduct their advertising expenditures to a full extent, quite obviously the next step is to reduce the advertising. This has a snowballing effect, reducing overrall advertising expenditures with the ultimate disastrous result of reducing turnover, ultimately profits, and therefore any gains by the Treasury from your measure would be offset to a large extent, if not completely, by a reduction in profits.

Our business is the sale of advertising specialties. They are taxed with a sales tax in California, ranging from 6.5% to 7%. This in itself is a burden enough. We do not need an additional burden such as is proposed.

May I respectfully urge you to table the proposal.

Sincerely,

I hope you recover quickly from your operation

Carl E. Rosenfeld
President

CER:ls

CC: Congressman Fortney Stark

COMPLETE SALES PROMOTIONAL SERVICES SINCE 1915

Ziff Communications Company
One Park Avenue, New York, NY 10016 Phone (212) 503-3209

Laurence Usdin
Vice President—Finance
Controller

July 13, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth House Office
Building
Washington, DC 20515

Dear Representative Rostenkowski:

I am writing to you on behalf of Ziff Communications Company, a publisher of periodicals which include: PC, PC Week, PC Tech Journal, MacUser, A+, Digital Review and several others.

We believe that the proposal to limit the percentage advertisers may deduct to 80% of advertising expenditures, is one that will be harmful to the economy as well as to publishers of periodicals. Such an action will adversely affect the amount many businesses can budget for the promotion of their product and services, in periodicals such as ours. These constraints will affect the many emerging businesses with which we deal as well as having a direct affect on the publishing industry, potentially causing the loss of many jobs.

We are sure that there must be more efficient and more acceptable methods of raising revenue than penalizing the media which brings vital information to its readers. We urge you to oppose such a tax if it comes before your committee.

Yours truly,

Laurence Usdin

LU:vme

cc: Honorable Charles B. Rangel
Honorable Thomas J. Downey
Honorable Robert J. McGrath

ACCOUNTING PROVISIONS - GENERAL

Statement of

The Aerospace Industries Association

Summary

The aerospace industry includes many of the nation's largest business corporations. Although these corporations have been affected in diverse ways by the frequent changes to the tax laws enacted by Congress over the past several years, the changes generally have increased their tax burden. This increased burden has been focused particularly on the years 1987-1990. Unfortunately, the 1987-1990 tax burden coincides with industry-wide expectations of limited growth and lower profits. Further, the increased burden coincides with industry plans to make major investments in research and development activities during this period in order to allow the United States to maintain its military and commercial aerospace superiority. Higher taxes for the aerospace industry undoubtedly will have an adverse effect on the ability of the aerospace industry to make these investments.

In considering revenue raising options Congress should not revisit the changes made by the Tax Reform Act of 1986. To do so will upset the balance of compromise reached less than one year ago, before the changes can even be fully implemented and their effects judged. Furthermore, aerospace companies were targeted with a specific tax increase in the Tax Reform Act of 1986 in response to their perceived low effective tax rates. This increased tax burden is being paid and further increases would be inappropriate.

Finally, the tax law changes of the past several years have imposed significant administrative burdens on aerospace companies. These burdens should not be further compounded by additional changes. For these reasons, as

explained more fully below, The Aerospace Industries Association believes that it would be inappropriate for Congress to raise additional taxes by further restricting the accounting rules for long-term contracts or by any other means directed toward the aerospace industry.

Substantial tax increases have already been imposed on aerospace companies for the next several years.

Overall, the Tax Reform Act of 1986 represents a substantial tax increase for the aerospace industry. Certain parts of the Act are beneficial to only a segment of the industry. For example, because the aerospace industry is in general more labor-intensive than capital-intensive, some members of the industry gained more benefit from the corporate rate reduction than was lost from repeal of the investment credit and ACRS. This is not universally the case, however. Companies with commercial (non-government) customers entitled to the investment credit and ACRS for business property (such as airplanes purchased by commercial airlines) are adversely affected by the repeal of these provisions because their products will become less price competitive as the tax benefits to the purchaser are reduced. On the other hand, the retention of the research and development (R&D) tax credit, even in its reduced and modified form, is of universal benefit to members of the industry.

Most significant, however, is that the benefits of the rate reduction and the R&D tax credit are outweighed heavily by changes made to the accounting rules on long-term contracts for many companies. In both the Tax Equity and Fiscal Responsibility Act of 1984 (TEFRA) and the Tax Reform Act of 1986 (TRA), Congress reviewed and modified the manner in which income from long-term contracts must be reported.

These changes affected contractors who used the completed contract method of accounting as well as those contractors who used the accrual method of accounting.

In TEFRA, Congress examined the completed contract method thoroughly and decided that instead of repealing the completed contract method, a new set of rules governing its use should be adopted. TEFRA gave broad authority to Treasury to issue regulations governing use of the method, and the legislative history provided guidance with respect to rules to be adopted. S. Rep. No. 530, 97th Cong., 2d Sess. 547 (Aug. 17, 1982) (Conference Report to Accompany H.R. 4961). See also General Explanation of the Revenue Provisions of the Tax Equity and Fiscal Responsibility Act of 1982, Joint Committee on Taxation 148 (1982).

The TEFRA provisions were developed by Congress to set forth new rules which would "deem" long-term contracts completed (even though not technically completed) to insure that income would be reported without undue deferral. The new rules also provided that contracts could be severed and even aggregated if necessary to prevent undue income deferral based on technical completion of the contracts. Most importantly, the new rules provided for the allocation of many additional costs to long-term contracts. That is, these latter rules required capitalization of extensive additional costs, so that such costs could ultimately be deducted only when the contracts to which they were related were completed, and the gross income therefrom became taxable. General and administrative expenses properly allocable to long-term contracts, for example, were required to be capitalized. Many other specified costs were also required to be capitalized. Interest expense and general and administrative expenses attributable to overall management and policy guidance of the corporation were to continue to be treated as period costs, currently deductible as incurred. The new cost capitalization rules went well beyond prior law and were phased in to take effect one-third in 1983, two-thirds in 1984 and fully in 1985.

In the TRA, the Administration proposed that the extensive rules for capitalization of costs allocable to "extended-period long-term contracts" adopted in TEFRA be extended to other long-term contracts, to the determination of inventories in general, and to the cost of self-constructed assets. Further, the Administration proposed that all general and administrative expenses "attributable to certain cost-plus and Federal government contracts" be capitalized and that interest expense also be capitalized with respect to property with a production period of two years or longer. The Senate Finance Committee adopted these further changes. S. Rep. No. 313, 99th Cong., 2d Sess. 145 (1986).

The Committee on Ways and Means proposed to repeal, instead of reform, the completed contract method of accounting. The reason for this decision was the perceived low effective tax rates of large defense contractors attributable to the use of the completed contract method of accounting. The effective tax rate information relied on by the Committee was based on a 1983 study of effective tax rates of selected large U.S. corporations. H. R. Rep. No. 426, 99th Cong., 2d Sess. 624 (1985). This study obviously was based on data that did not include the full effects of the TEFRA reforms which were not fully implemented until 1985. The House-Senate Conference agreed to (1) adopt the increased capitalization rules proposed by the Administration and adopted by the Senate; and (2) impose an additional $3.5 billion of targeted tax on long-term contractors to increase their perceived low effective tax rates.

This $3.5 billion targeted tax increase was implemented by a requirement that 40 percent of the income from long-term contracts be reported under the percentage of completion method. Contractors are to continue to report the remaining 60 percent of contract income under their normal methods of accounting. See Internal Revenue Code § 460.

Possible option to increase taxes of aerospace companies should not be adopted.

Options to increase revenue currently being considered by the Committee on Ways and Means include the proposed requirement that the completed contract method be repealed and that long-term contracts be reported under the percentage of completion method.

As discussed above, the repeal of the completed contract method of accounting was considered in TEFRA and TRA and each time Congress decided against repeal. The phase-in of the TEFRA rules delayed their effect and resulted in the appearance that long-term contractors continued to have low effective tax rates after the TEFRA changes. Controversy over this issue led to the compromise in TRA that contractors should pay a targeted tax increase of $3.5 billion.

As a result of the TEFRA and TRA changes the major aerospace companies that use the completed contract method of accounting estimate an average effective tax rate for the 1987-1990 period in excess of 40 percent. This 40 percent effective rate is significantly above the 34 percent top marginal rate. The attached table compares the top marginal rate to the effective tax rate by year. Very few other industries will have effective tax rates at or above the top marginal rate. It simply is inappropriate to again single out an industry for further tax increases when its effective tax rate is already more than most other industries and above the top marginal rate.

The completed contract method of accounting has been included on the tax expenditure list for a number of years. After the changes of TEFRA and TRA, it is now reflected as a negative tax expenditure of $4.1 billion for the 1988-1990 period. This means that the completed contract method of accounting actually will produce more tax revenue during this period than would have been produced had it never been permitted. Estimate of Federal Tax Expenditures for Fiscal Years 1988-1992, Staff of the Joint Committee on Taxation 13 (1987).

The business climate of the aerospace industry in the 1987-1990 period makes a tax increase for the aerospace industry particularly inappropriate as a means of raising revenues in that period.

The increased tax burden for 1987-1990 will be imposed during a period of time when the rate of growth in revenues for major aerospace companies is decreasing and unprecedented amounts will be needed for research and development. The attached chart compares the critical indicators of business backlog and employment growth with the growth in R&D expenditures for nine major aerospace companies. The conclusion is clear - business growth is slowing down and R&D efforts are increasing. Increased taxes will affect adversely the ability of the aerospace industry to invest the funds needed to meet its R&D goals.

TEFRA and TRA have imposed significant administrative burdens on aerospace companies.

Too little is said about the complexity of our tax laws. There appears to be a presumption that large corporations can deal with any level of complexity. Whether or not technically true, this is not so as a practical matter. Nor can the Internal Revenue Service effectively administer a tax law that adds level upon level of complexity each year.

TEFRA imposed the requirement that long-term contractors adopt a tax cost accounting system that is used neither for financial reporting nor for contract reimbursement purposes. These complicated cost accounting systems developed at significant cost by contractors in 1983 to comply with TEFRA already need to be redone in 1987 to comply with the new uniform capitalization rules imposed by TRA. These tax accounting systems are in addition to and separate from the needs for other business records used for contract cost reimbursement or financial statement purposes. The design and operation of continuously changing tax accounting systems are expensive in dollars, but more importantly they are a drain on creative talents within corporations.

A further extreme complexity was added by the TRA in order to raise the additional $3.5 billion of targeted tax imposed on long-term contractors. As indicated above, the means used to raise the targeted income tax was to require contractors to report 40 percent of their long-term contract income under the percentage of completion method. This method requires contractors to estimate the total cost of performing a contract before it is complete. This generally is impossible, so the method imposes a "look-back" rule under which, at the time a contract is completed, the contractor must recompute the tax for each year in which a contract was being performed using the facts as they become known at the completion of the contract.

The look-back procedure incorrectly assumes that the contract revenues and costs can be accurately determined at the completion of the contract. This is not so for the many contracts under which varying interpretations of the parties' obligations are possible.

This unusual procedure also has the effect of multiplying the number of tax computations that must be made by a contractor each year. For example, a contractor that enters 100 contracts a year, each of which takes four years to complete, must annually estimate percentage of completion income for 400 contracts and recompute the percentage of completion income for 100 contracts for each of the prior four years. Thus an annual computation of income on 800 items of contract income is required. This burden is in marked contrast to the completed contract method of accounting under which the contractor would determine income from 100 contracts annually. Moreover, it is totally inconsistent with achieving productivity increases needed to keep the aerospace industry competitive in world markets.

* * * * * *

In conclusion, the Aerospace Industries Association strongly opposes any change to the tax law specifically targeted to raise the taxes of aerospace companies.

Table

Comparison of Effective Federal Income Tax Rates of Nine Major Aerospace Companies To the Top Marginal Rate

	Effective Tax Rate	Top Marginal Rate
1987	33 %	40 %
1988	52 %	34 %
1989	36 %	34 %
1990	40 %	34 %

Table based on data from The Boeing Company, General Dynamics Corporation, Hughes Aircraft Co., Lockheed Corporation, Martin Marietta Corp., McDonnell Douglas Corp., Raytheon Co., Rockwell International, and TRW, Inc.

Chart

Aerospace Industry Trends

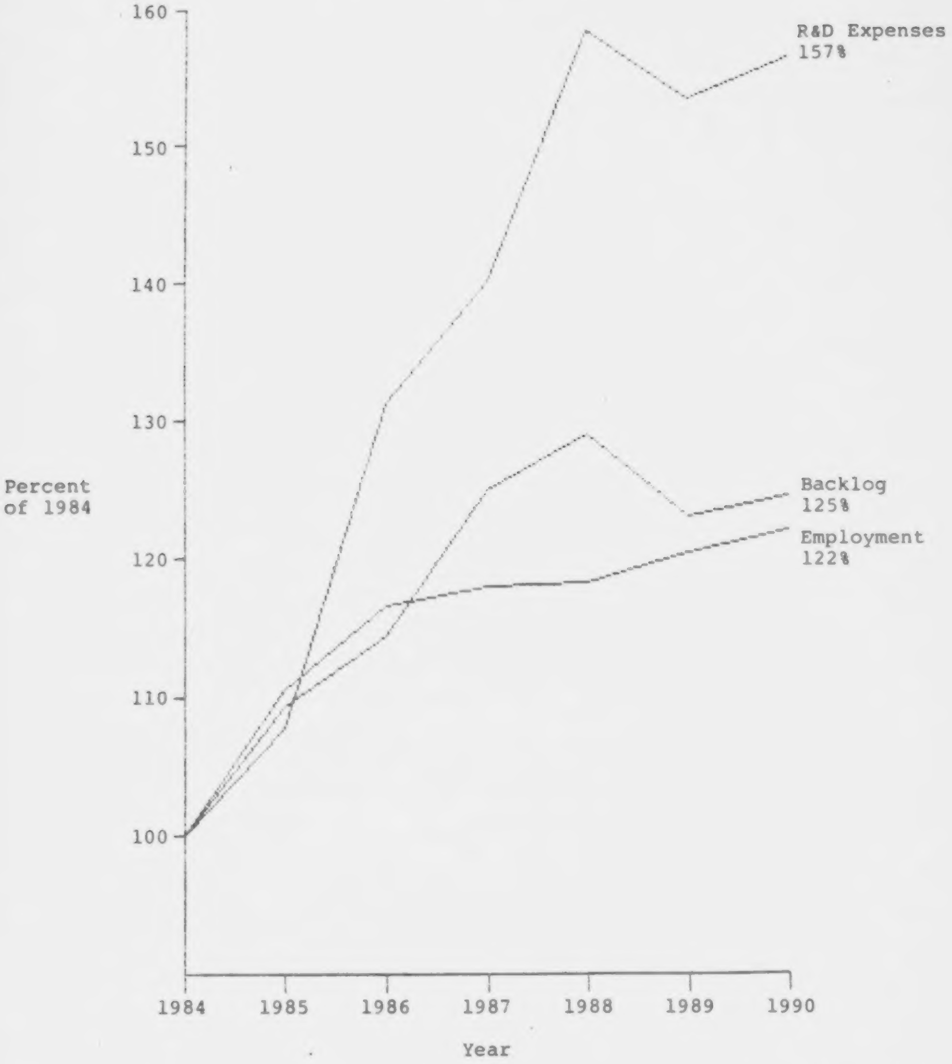

Chart based on data from The Boeing Company, General Dynamics Corporation, Hughes Aircraft Co., Lockheed Corporation, Martin Marietta Corp., McDonnell Douglas Corp., Raytheon Co., Rockwell International, and TRW, Inc.

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OF COUNSEL
PAUL LITTLE
HOUSTON, TEXAS

July 17, 1987

Robert J. Leonard
Chief Tax Counsel
Committee on Ways and Means
Longworth House Office Building
Room 1111
Washington, D.C. 20515

Re: Possible Revenue Raisers-- Amortization of Intangibles

Dear Rob:

One of the possible revenue options being considered is a proposal to deny or limit the amortization or depreciation of certain intangible assets. The assets identified are characterized as being in the nature of customer base or market share, and may include such assets as customer or subscription lists and patient or client records.

I strongly believe that these proposals are inappropriate and should not be adopted. One of the reasons given for the proposals is that amortization should not be allowed for items that are the equivalent of goodwill. While I might concur in this general statement, I do not believe legislative action is necessary to accomplish that goal. The courts have allowed amortization of intangibles only upon a showing that the asset is separate from goodwill. Under existing law and common sense, if an item is separate from goodwill and has a determinable useful life, amortization is allowable.

In addition, there appears to be a belief that amortization of some intangible assets should be denied even if they are not equivalent to goodwill. It is argued that a taxpayer who purchases an intangible asset such as a customer list will, in the course of time, create a replacement asset, e.g., a new customer list. It is argued that it is improper to allow depreciation of the purchased customer list if the taxpayer will also currently deduct the costs of creating the new customer list instead of capitalizing those costs and recovering them through depreciation.

I strongly suggest that this argument is specious. The purchased asset is separate from goodwill, has a determinable useful life, and has a known cost. It should be depreciable. On the other hand, I believe it is inappropriate and completely impractical to limit the current deductibility of expenses of conducting an ongoing business by seeking to segregate some portion thereof as helping to create some intangible asset. These expenses are incurred incident to the conduct of the taxpayer's business and any costs incurred to generate current income should be currently deductible even if it might be argued in theory that some unidentifiable portion of those expenses creates some type of intangible asset. Thus, the proposals should be rejected as "backdoor" solutions to a non-problem.

Thank you for your consideration of this matter. A memorandum is attached that provides a more detailed explanation of our position on this matter.

Sincerely yours,

William P. McClure

July 17, 1987

MEMORANDUM

To: Robert J. Leonard

From: William P. McClure

Re: Possible Revenue Raisers--Amortization of Intangibles

The staffs of the Joint Committee on Taxation and the Committee on Ways and Means, in their description of possible options to increase revenues, have proposed to deny or limit the amortization or depreciation of certain intangible assets. Under the proposal, certain assets that are described as being "similar" to goodwill either would not be allowed any depreciation or amortization or would be allowed amortization over a very long period, *e.g.*, 40 years.

The intangible assets that are the object of the proposals are generally described as "assets representing the value of the existing customer base or market share" of the business. These assets are said to have a value equivalent to the value to be obtained from existing customers and have a useful life equivalent to the time period over which existing customers die, move away, or otherwise remove their patronage. Such assets are said to resemble "goodwill," which is not depreciable, because goodwill is the expectancy that existing customers will continue their patronage. The staffs give as examples of such assets the following:

1. customer and subscription lists;
2. patient or other client records;
3. the existing "core" deposits of banks;
4. insurance in force in the case of insurance companies;
5. advertising relationships and customer or circulation base in the case of a broadcast or newspaper business; and
6. existing market share in the case of any business.

We understand that these proposals are aimed at two different, but related, problems. First, there are assets, however labelled, that closely resemble goodwill because the value of the asset is the value of continued patronage from existing customers and the useful life of the asset is the expected life of the existing customers. It can be argued that these are assets which are the equivalent of goodwill and should not be depreciated. It can also be argued that the nondepreciability of goodwill is based on an assumption that goodwill does not have a determinable useful life and therefore there should be no objection to the depreciation of an asset if taxpayers can carry the burden of proving a useful life. However one decides this question, the important point is that there is no clear need for legislation on the subject. The frequency of taxpayers attempting to depreciate the value of their existing customer base has not been shown and we are not aware of any court allowing such a practice.

The broader objective of the proposal deals with the problem of assets that are based on the existence of customers. These assets, such as customer lists, patient records, etc., are not given a value equal to the value of future patronage from customers. For example, a customer list has a value equal to the avoided cost of contacting and securing customers without the aid of such a list. The problem with such assets is not that they are the equivalent of goodwill. The courts that have allowed the depreciation of such assets have uniformly held that the depreciable value of such assets, if any, must be a value that is separate and distinct from the value of goodwill.

The "problem," as perceived by the staffs, is that a taxpayer who operates a business will necessarily create a new asset (a new customer list or new patient records) to replace the old asset that is being depreciated, but will not capitalize the cost of creating the new asset. Instead, the staffs argue that taxpayers currently deduct the cost of creating a new asset. They believe it is inconsistent to allow a taxpayer to depreciate the cost of purchasing a customer list and also allow the same taxpayer to currently expense the costs attributable to attracting new customers (which has the effect of creating a new customer list).

The staffs have proposed to require capitalization of a percentage of advertising expenses on the grounds that some percentage of the annual expense creates future goodwill. That proposal is objectionable even if it were conceded that current advertising expenses creates some future goodwill. The purpose of advertising is to create current sales. No one advertises to create future goodwill. If a taxpayer could maintain current sales with less advertising, he would do so even if it "cost" some future goodwill. The creation of future goodwill is merely incidental to the primary and predominant purpose of advertising--the creation of current sales. For those reasons, advertising expenses have been, and should continue to be, currently deductible. For exactly the same reasons, the costs of creating any other new customer-based, so-called intangible assets should continue to be currently deductible.

For example, a taxpayer who sells newspapers may have purchased a customer list to use in his business. That list has a value separate from goodwill and a useful life. He should be allowed to depreciate the list. In the course of his business he will certainly seek to retain old customers while attracting new ones. Over time he will have created a new list of customers. However, the retention of old customers and the attraction of new ones is entirely incidental to the real object of the taxpayer--selling newspapers. If the taxpayer could sell newspapers at a lower cost by not creating a customer list, he would do so. Creating the customer list is unavoidable, however, and is entirely incidental to the taxpayer's activity of getting customers and selling newspapers. The current costs of selling newspapers are exactly that--current costs attributable to the earning of current income. It is literally impossible to establish what portion of expenses are theoretically attributable to the creation of a new customer list. Clearly, any arbitrary allocation would be just that--completely arbitrary. Therefore, none of these expenses should be required to be capitalized and depreciated as a cost of creating an incidental intangible asset. It also would be illogical tax policy to forbid the depreciation of purchased intangible assets merely because there is a perceived and highly theoretical problem regarding the tax treatment of "self-constructed" intangible assets.

Florida Congressional Delegation
2107 Rayburn House Office Building
Washington, D.C. 20515

July 22, 1987

Charles E. Bennett
Chairman
Third District
(202) 225-2501

Senator Lawton Chiles
Senator Bob Graham

Congressman Dante B. Fascell
19th District
Congressman Sam M. Gibbons
7th District
Congressman Claude Pepper
18th District
Congressman Bill Chappell
4th District
Congressman C.W. Bill Young
8th District
Congressman William Lehman
17th District
Congressman Andy Ireland
10th District
Congressman Earl Hutto
1st District
Congressman Daniel A. Mica
14th District
Congressman Bill Nelson
11th District
Congressman Bill McCollum
5th District
Congressman E. Clay Shaw, Jr
15th District
Congressman Michael Bilirakis
9th District
Congressman Tom Lewis
12th District
Congressman Connie Mack
13th District
Congressman Buddy MacKay
6th District
Congressman Lawrence Smith
16th District
Congressman Bill Grant
2nd District

Honorable Dan Rostenkowski
Chairman, Ways and Means Committee
1102 Longworth HOB
Washington, D.C. 20515-6348

Dear Mr. Chairman:

On July 10, 1985, nineteen members of the Florida Congressional delegation wrote you as well as other House conferees to the Imputed Interest Tax bill, H.R. 2475, to seek your support for a Senate provision which exempted the elderly from paying federal income tax on imputed interest on entry fees to continuing care (i.e. lifecare) retirement communities. We were delighted that this important exemption was enacted into law.

We now understand that the June 25, 1987, Description of Possible Options to Increase Revenues includes a possible proposal that below-market loan rules apply to continuing care facilities and other similar facilities that provide consumption items in connection with the making of a below-market loan. We view this possible proposal to repeal this important continuing care exemption to the below-market loan rules with concern. We urge that the Committee on Ways and Means reject any such option.

Repeal of this exemption for lifecare would raise insignificant revenue and would erode elderly Americans' ability to provide for their own long-term housing and health care costs, and deepen their reliance on Medicare, Medicaid and other government programs. A copy of our July 10, 1985 letter which more fully expresses our views on this matter is attached.

Sincerely,

Charles Bennett   Bill Chappell

Bill Nelson   Earl Hutto

Andy Ireland   Bill Lehman

Dante Fascell   Buddy MacKay

Bill Grant

Michael Bilirakis   Tom Lewis

Claude Pepper   Clay Shaw

Sam Gibbons   Connie Mack

WESTMINSTER-CANTERBURY of WINCHESTER, INC.
"The Place To Live. Naturally."

September 1, 1987

The Honorable Dan Rostenkowski
2111 Rayburn HOB
Washington, DC 20515-1308

Dear Mr. Rostenkowski:

Westminster-Canterbury of Winchester, Inc. is a church-related, non-profit, full-service continuing care retirement community. Like many other retirement communities of this type, we charge our residents an initial entrance fee in addition to the monthly service fee.

The 1984 Tax Act contained a provision suggesting that certain entry fees paid to continuing care retirement communities be classified as below market loans. In October 1985 legislation (H.R. 2475) was enacted designed to give a $90,000 exemption from imputed interest rules to facilities that met specific market loan rules.

It is my understanding that the House Ways and Means Committee is currently studying options to raise the revenue necessary for budget reconciliation, and that one of the options proposed is to do away with the $90,000 exemption provided for continuing care retirement communities in the 1985 legislation.

I am writing to urge you not to support the removal of the $90,000 exemption. First of all, I doubt that this provision would raise a significant amount of money for the government. In addition, the I.R.S. still has not determined which entry fees, if any, might be subject to the imputed interest rules. We do not consider our entrance fees to be below market loans, and neither do our residents. Neither of us has entered into these arrangements as means to avoid taxes. To ask our residents to pay additional taxes would be unfair.

I would appreciate your careful consideration of this issue.

Sincerely,

Richard A. Zechiel

Richard A. Zechiel
Administrator

RAZ:mi

956 Westminster-Canterbury Drive, Winchester, Virginia 22601, Telephone (703) 665-0156

FARMING PROVISIONS

OFFICE OF CATHOLIC RURAL LIFE

"It is my wish that you may be found rich in
the harvest of justice which Christ has ripened
in you, to the glory and praise of God."
(Phil. 1:11)

July 24, 1987

Joseph Dowley, Chief Cousel
Ways & Means Committee
1102 Longworth House O.B.
Washington, DC 20515

Dear Mr. Dowley,

It has been brought to my attention that one of the income tax provisions coming under consideration concerns the cash accounting system used by farmers. The present system allows corporate farms unfair advantage over a true family farm. Corporate farms are able to enlarge their operations and subsidize them at the expense of the family farms because of the way the present cash accounting system is set up. National Farms Inc. of Kansas City is looking for a location to build a 300,000 head hog operation right now and will subsidize it by over $3 million because of the definition they fall under. This is unfair to real family farmers and only serves to help drive them off their farms into town to take someone else's job - if any are available.

I have learned that Tyson Food Inc. received a $1 million tax refund on a profit of $69 million. When something like this is allowed to happen, how can our congressmen and senators complain about the agricultural budget. You cannot reward corporate farms on one hand and complain that it costs too much to subsidize the family farm. Prohibiting the use of the cash accounting system by farms with sales of more than $5 million would help raise revenue to reduce deficit. It would also discourage corporate farms and raise $1.5 billion over 5 years.

If some of these changes are not made to protect the real family farmer, what will our urban representatives propose to do with 291,000 rural Kansans that will be displaced from our present farms and businesses and homes within 5 years?

I urge you to put a stop to the use of cash accounting by large corporate farms as part of the budget reconciliation tax bill. Our country cannot stand to continue to lose real family farmers because of unfair practices and low market prices.

Sincerely,

Linda Hessman

Linda Hessman, Representative
Rural Life Office

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LAW OFFICES
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wsm

August 13,1987

Dear Representative Rostenkowski;

I am an attorney who lives on a small farm. The income I receive from my law practice will not support my farm - it must support itself in some way. I am strongly opposed to the new version of farm loss limitation that has been included as one of the options in revenue raising possibilities to raise the revenue needed for the Federal Government as mandated by the 1988 budget resolution. Only $25,000 in farm losses would be deductible against income in any year under this proposal. Losses in excess of $25,000 would be subject to possible loss restricitions despite my actual material participation in the farm. This option would severly damage the farm industry by creating an artificial limit on losses, disrupting the internal economics of the farm industry and discouraging investment.

Is it fair to penalize an industry that created America because monied interests have seen fit to become involved? America is still made up of many small farms that have always been the back bone of the nation. Don't cast out the mother that nourished you because of the infirmities of old age. If the farm loss limitation is passed, my farm will disappear and America, in some small way, will be diminished by it's passing

Very truly yours,

Patricia L. deRosset

PLdeR/lf

LARRY J. HOPKINS
6TH DISTRICT, KENTUCKY

COMMITTEES
AGRICULTURE
ARMED SERVICES

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Congress of the United States
House of Representatives

August 24, 1987

Hon. Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am aware that your committee has under consideration to include in its 1988 budget reconciliation package a proposal to limit the amount of farm-related losses which may be deductible against non-farm income.

It is imperative that committee members be aware such a limitation would have disastrous consequences for the thoroughbred horse breeding industry which contributes hundreds of jobs and many hundreds of millions of dollars to the economy of Kentucky.

Many involved in the horse industry are, for tax purposes, considered farmers, and this proposal would bring their businesses under the constraints of the loss ceiling. Investor capital is vital to the horse industry. This investment flow has helped assure income for horse owners and breeders and supported vital expansion programs while reducing the risk of sharp cyclical overproduction and underproduction problems.

Because of the inherent cyclical and erratic nature of profits and losses from horse operations, a loss ceiling would totally disrupt the financial structure of the industry. It is not at all uncommon for a large number of loss years to be offset by a few relatively large profit years. The proposal under consideration would subject people in the horse business to an unrealistically low loss ceiling in unprofitable years but full taxation in profitable ones.

You must remember we are talking about, in some cases, horses which are worth millions of dollars apiece. With a loss ceiling in effect and the high price of horses, an already risky proposition becomes vastly riskier. Potential investors would probably choose to invest elsewhere. The industry simply could not survive if investment capital were to be withdrawn.

I urge you to reject a loss ceiling provision as a revenue-raising option. If, however, in your deliberations you feel there is a need for such a provision, it is important that you distinguish between real economic losses and "artificial" losses created by special tax provisions.

Thank you for your consideration of the concerns of the horse breeders of Kentucky.

Sincerely,

Larry J Hopkins

LARRY J. HOPKINS
Member of Congress

Sundar
Arabians

13 August 1987

The Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, D.C. 20515

Re: Farm Loss Limitation

Dear Congressman Rostenkowski,

It is our understanding that a new version of farm loss limitation has been included as one of the options in packages of revenue raising possibilities drafted by the Congressional tax-writing staffs for consideration by the House Ways and Means Committee. Of concern to horse people is the option which would limit to a maximum of $25,000.00 the amount of farm losses deductible against other income in any year. Losses in excess of $25,000.00 would be subject to passive loss restrictions, regardless of the actual material participation of the farmer/horseman.

We and many associates in the horse business here in the Delaware Valley, as well as throughout the United States are absolutely and firmly opposed to such revenue proposal restricting farm losses. This would severely damage the horse industry by creating an artificial limit on losses and would certainly disrupt the internal economics of this business. Worst of all, it would greatly discourage new investment in the horse industry.

The horse industry generates billions of dollars to the American economy through use of vehicles, fuel, grain, medicine, horse equipment, buildings, salaries, farm equipment, race tracks, horse shows, motels, restaurants, airline travel, art, advertising, etc. We request your strong opposition to those revenue proposals that include farm loss restrictions.

Respectfully yours,

Con L. Kristinus

Rainer W. Kristinus   Con L. Kristinus

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Purebred Egyptian Breeding

ALBERT D. WILLIAMS, JR.
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312 / 346 - 3550

July 30, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

I am writing to urge you to consider seriously the elimination of the provision of limiting farm losses to a maximum of $25,000.00 a year as proposed by the Congressional tax-writing staffs.

My wife and I, and our two daughters own a small horse farm in Illinois, hence, our interest in this proposed legislation.

If this $25,000.00 limitation for farm losses is inacted into law, it would surely damage the horse industry by creating an artificial limit on losses, disrupting the internal economics of the business and discouraging investment.

I enjoyed meeting you and talking to you at the Miseri Cordia Golf Outing in June of this year.

Very truly yours,

Albert D. Williams, Jr.

Albert D. Williams, Jr.
120 Alden Lane
Lake Forest, Illinois 60045

ADW:pt

CALIFORNIA
FEDERAL

James R. Wegge, Jr.
Senior Vice President

July 15, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
Longworth House Office Building 1102
Washington, D.C. 20515

Re: Description of Possible Options to Increase Revenues
Prepared for the Committee on Ways and Means

Dear Mr. Leonard:

The following comments by California Federal Savings and Loan Association address the option proposal related to the "Tax treatment of recoveries of bad debts of thrift institutions" (the "proposal").

In general the statements contained in the "Present Law" section of the proposal are at best misleading and distortive in terms of the current tax law affecting bad debt deductions of thrift institutions. Notwithstanding the position of the thrift industry that "any amount realized... with respect to such property shall be treated... as a payment on account of such indebtedness," and the Gibraltar Court of Claims decision in support of this position, the summary of the present law not only misstates the relevant issue in the Gibraltar litigation but also its current judicial status. Further, the present law summary fails to address the current limitations on the availability of the percentage of taxable income bad debt deduction method as well as the implications regarding the future use of this method in light of the significant reduction in the applicable percent beginning in 1987.

With respect to the Gibraltar case, the issue is not (as set forth in the proposal) whether the amount realized from the disposition of foreclosed property is credited to the bad debt reserve but whether, in the case of a gain from such disposition, the gain results in a collection, and therefore recognition, of the delinquent interest on the defaulted loan at the date such property was acquired by the thrift institution by foreclosure or similar proceeding. If the Gibraltar decision is ultimately upheld, the total gain (represented by the excess of the amount realized over the adjusted basis in the property) would increase (not reduce as stated in the proposal) the reserve for bad debts which, as discussed below, would decrease either the current or some future year bad debt deduction depending upon the bad debt method used by the thrift institution in the year of the disposition. Neither the Gibraltar case nor the First Charter decision discussed below in any way suggest that any actual gain (excepting the recognition of delinquent interest income) from the disposition of the foreclosed property be recognized as taxable income rather than as a credit to the bad debt reserve, and such a position would clearly represent a change to existing tax law.

5670 Wilshire Boulevard Los Angeles, California 90036 Telephone 213 932 4057

In addition, the judicial status of the (misstated) Gibraltar issue is far from certain as suggested by the proposal. The Gibraltar case is currently on appeal by the Government to the Federal Circuit Court of Appeals and the Ninth Circuit Court of Appeals reached a contrary decision in the First Charter Financial Corp. case. Thus, even if the Federal Circuit Court affirms the lower court decision, there would be a "split" between the Circuits requiring U.S. Supreme Court resolution.

With respect to bad debt deductions in general for the thrift industry, Congress in the Tax Reform Act of 1986 reconfirmed its longstanding belief "that there should be some incentive for thrift institutions to provide residential mortgage loans..." by continuing to allow a reserve method of deducting bad debts under either the experience or percentage of taxable income method. Under both methods, actual bad debt losses decrease the bad debt reserve while recoveries and gains on disposition increase the reserve, thereby creating a net charge or credit to the reserve (in addition to the current year deduction which increases the reserve) depending upon whether the thrift institution had an aggregate net loss or net gain, respectively, for the period.

Under the experience method, a thrift institution is allowed to claim a bad debt deduction for either its actual net loss during the period or by increasing its bad debt reserve to an amount computed based on its historical net loss experience (the so-called Black Motor Company formula). Under the percentage of taxable income method, a thrift institution computes a deduction basically equal to 8 percent of its taxable income before such deduction, which is subject to both a 6% limitation based on qualifying real property loans and a 12% limitation based on the amount of deposits and tax reserves. In order to qualify for either of these two alternative bad debt reserve methods (and to avoid potential recapture of existing bad debt reserves), the thrift institution must meet a 60% qualifying assets test.

As noted above, the percentage of taxable income method is subject to both a 12% and a 6% limitation. Once these limitations have been reached, whether as a result of bad debt deductions claimed and/or as a result of gains on disposition of foreclosed property, the thrift institution can no longer claim a bad debt deduction under this method.

It should be further noted that as a direct result of decreasing the percentage of taxable income percent under the Tax Reform Act of 1986 from a maximum of 40% to 8% beginning in 1987, many if not most thrift institutions who previously used the percentage of taxable income method will now utilize the experience method. As described above, the experience method computation immediately recognizes any gain on disposition of foreclosed property as taxable income by either reducing the deduction equal to the actual net loss for the period or by increasing the reserve balance before the current year deduction which is computed as the amount necessary to increase the reserve balance to an amount based on the thrift institution's historical net loss experience. In addition, under the later approach, the gain would also be included in the historical net loss experience computation and, therefore, further reduce the deduction.

Based on the above as well as some general underlying economic principles relating to acquisitions and dispositions of foreclosed properties, the projected revenue effect of the proposal of over $100 million would appear extremely optimistic. This $100+ million in additional tax revenues suggests that gains between $300-440 million will be recognized from 1988 to 1990 by thrift institutions who utilize the percentage of taxable income method. Given the underlying principle that a foreclosure occurs because the property value is less than the outstanding debt, it is hard to imagine this much appreciation in market values over the next three years for currently distressed property held by only those thrift institutions who will use the percentage of taxable income method.

By way of conclusion, California Federal would like to suggest the following additional arguments against the proposal for your consideration:

1. The proposal contradicts the well-established, historical rationale for computing a bad debt deduction under the reserve method and specifically for thrift institutions under Sections 593 and 595. (If Congress intends to revise the reserve method for thrift institutions, it should not be done piecemeal but rather by addressing all aspects of Sections 593 and 595.)

2. The proposal would circumvent or at least diminish the longstanding Congressional intent recently reconfirmed in the Tax Reform Act of 1986 "that there should be some incentive for thrift institutions to provide residential mortgage loans...."

On behalf of California Federal, I appreciate this opportunity to comment.

Very truly yours,

James R. Wegge, Jr.
Senior Vice President

JRW:cr/0713

CALIFORNIA LEAGUE OF
SAVINGS INSTITUTIONS

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July 15, 1987

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
1120 Longworth House Office Building
Washington, D. C. 20515

Re: Joint Committee on Taxation, Description of Possible Options to Increase Revenues prepared for the Committee on Ways and Means (JCS-17-87), June 25, 1987

Dear Mr. Leonard:

On behalf of the California League of Savings Institutions and its 215 member organizations, we hereby submit our comments with respect to the above-mentioned Joint Committee publication.

This portion of the Option Pamphlet analyzes the possibility of a proposed amendment (hereinafter "proposal") to the applicable law (Section 595) which would require that all amounts in excess of basis realized by a savings and loan on the sale of its foreclosed property ("REO"), be treated as taxable income, rather than being added to the institution's reserves for bad debts.

It is the position of the California League that the proposal should unequivocably be rejected for the following reasons:

(i) The analysis is misleading in terms of the current status of its cited case law precedent. Gibraltar Financial Corporation of California v. United States, 86-1 U.S.T.C. par. 9405 (Ct. Cl. 1986) (hereinafter "Gibraltar") is a lower, trial court decision. The case has been appealed by the Government to the United States Court of Appeals for the Federal Circuit (No. 86-1578), and thus the holding of the lower court remains in doubt. On the other hand, the only Federal Circuit appellate court which has dealt with the issue of gain realized on the sale of REO by a savings and loan, the Ninth Circuit, has rendered a holding which is in direct conflict with the holding in the Gibraltar case. (First Charter Financial Corp. v. United States, 669 F.2d 1342 (1982)).

(ii) The analysis misstates the issue presented in Gibraltar, and proposes a major statutory alteration of Section 595 which would be far broader than the proposition argued by the IRS in that case.

In Gibraltar, the IRS argued, based on Rev. Rul 75-251, that gain realized on the sale of REO by a savings and loan is taxable under Section 595, but only to the extent that a cash basis taxpayer had previously failed to recognize in its taxable income the uncollected interest which had accrued on the foreclosed note prior to the date of foreclosure. The IRS had never argued that the *balance* of the gain, or any portion of that balance, should not be credited to the Section 595 bad debt reserves. Accordingly, the proposal, which would prevent *all* gain on REO from being treated as a reserve credit is far broader and harsher than the position advocated by the Government in *Gibraltar*. It represents a total change in the operation of Section 595, rather than, as implied in the analysis, a mere "clarification" of the issue in the *Gibraltar* case as applied to the existing provisions of Section 595.

(iii) *The analysis misstates the operation of the relevant Section 593(b)(2)(B), which section expressly precludes the potential for the "tax exempt gain" referred to in said analysis*.

The key rationale of the proposal is the conclusion that "[S]ince the addition to the reserve for bad debts under the . . . [percentage of taxable income bad debt method] . . . generally is computed by reference to the taxable income of the thrift institution, *the size of the reserve does not affect the amount of the bad debt deduction for additions to the reserve*." The Option Pamphlet further concludes that, because of this purported operational quirk in Section 593(b)(2), *Gibraltar* ". . . effectively would exempt gain on the sale of foreclosed property from taxation for thrift institutions using the percentage of taxable income method for computing the addition to the reserve for bad debts."

The example provided in the proposal goes on to state that while sales proceeds are added to the bad debt reserves, ". . . the dollar amount of the reserve does not affect the bad debt deduction of the thrift institution if it used the percentage of taxable income method." Finally, the Option Proposal necessarily implicates this so-called "exemption" of gain as the core reason for the proposal, by negatively contrasting the aforesaid purported operation of the percentage of taxable income method with the alternative experience method, where bad debt reserve addition ". . . would reduce the amount of deduction permitted for additions to the reserve. . . ."

In plain terms, the analysis is wrong. Section 593 provides not one but *two* limitations on the overall limits or "cap" amounts which can be added to an association's bad debt reserves under the percentage of taxable income method. (Sections 593(b)(1)(B)(ii) and 593(b)(2)(C).) Both limitations have been in the Code since the adoption of the percentage of taxable income method in 1962. The latter provision reads as follows:

> (C) OVERALL LIMITATION ON PARAGRAPH -- the amount determined under this paragraph shall not exceed the amount necessary to increase the balance at the close of the taxable year of the reserve for losses on qualifying real property loans to 6 percent of such loans outstanding at such time.

Accordingly, it is beyond dispute that credits to the bad debt reserve attributable to the sale of REO can affect and reduce the amounts otherwise allowable as bad debt reserve deductions under the percentage of taxable income method. Further, since Congress has provided for an 6 percent overall bad debt reserve credit allowance in Section 595, there is no logical reason why that overall allowance should not be achieved by the combined use of bad debt reserve deductions (which are "credited" to reserves) and reserve credits referable to gain on the sale of

REO). Finally, the proposal fails to note that a savings and loan which utilizes the percentage of taxable income method is entitled to utilize the experience method in a subsequent year. In that latter year, the experience method bad debt reserve allowance will normally be reduced by bad debt reserve credit balances attributable to gains on the sale of foreclosed property.

(iv) The analysis fails to take into account revenue reducing amendments which should properly be added to Section 595 if the proposal is adopted, in order to provide tax parity to savings and loans with regard to expenses incurred in connnection with the acquisition, holding and disposition of REO.

In Allstate Sav. & Loan Ass'n. v. Commissioner, 68 T.C. 310 (1977), aff'd. 600 F.2d (9th Cir. 1979), cert. denied, 445 U.S. 966 (1980) the United States Tax Court held that savings and loans subject to Code Section 593 could not deduct from income expenses incurred in connection with REO, even though but for Code Section 595 such expenses would otherwise be fully deductible, because "the most reasonable interpretation of ... [§ 595] is that all the tax results of foreclosures, including the expenses of disposing of the . . . property, are to be accounted for through adjustments to the Association's reserve for losses . . . (Allstate, supra. 68 T.C. at 317.) (Emphasis supplied).

Section 595 currently provides a balanced tax approach to REO held by savings and loans, by treating REO sales receipts as "reserve credits" rather than items of income, and REO expenses as "reserve charges" rather than items of expense. The proposal breaks that equation by treating sales receipts as a currently taxable non-reserve transaction, and accordingly should in fairness allow savings and loans to account for their expenses referable to the acquisition, holding and disposition of REO as currently deductible non-reserve transactions.

(v) The proposal runs counter to the origin and purpose of Section 595. Prior to the enactment of Section 595, gains on the sale of REO were not accounted for through credits to the bad debt reserves. The Committee Report accompanying the enactment of Section 595 states that this caused "erratic" tax results which Congress sought to avoid, and that this would be accomplished, in the case of a reserve basis taxpayer, by charging gains or losses on the sale against the bad debt reserves. (S. Rep. No. 1881, 87th Cong., 2d Sess. (1962) at 47-48.) See also H. Rep. No. 1447, 87th Cong., 2d Sess. (1962) at 36-37. The entire thrust of Section 595 is to utilize the Section 593 bad debt reserves as the means of dealing with the tax treatment of the foreclosure itself and all post-foreclosure events, including sales of the REO. Accordingly, the reserve charges and credits currently provided by Section 595 constitute an integral accounting system, and displacing a major aspect of that system should not be considered in a vacuum, but only as a part of an overall review of all aspects of Section 595.

Sincerely yours,

W. Dean Cannon, Jr. (ge)

W. Dean Cannon, Jr.
President

Credit Union National Association, Inc.
805 15th Street, NW, Suite 300, Washington, DC 20005-2207, 202-628-CUNA

July 14, 1987

Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This letter is to provide comments on behalf of the Credit Union National Association, Inc. for the record of the Committee's deliberations on possible revenue proposals for fiscal year 1988. The Credit Union National Association, Inc. (CUNA) is an association of credit union leagues located in each state, the District of Columbia, and Puerto Rico. Through these leagues, CUNA represents approximately 16,600 credit unions serving more than 55 million members.

I had the distinct honor of appearing before this committee on July 26, 1985, during its extensive deliberations on the matter of the financial institution tax reform. During those hearings as well as those conducted by the Senate Finance Committee, the long-standing (50 year) credit union tax exemption was explored, discussed, and reviewed in a most thorough and complete fashion. In the months following the hearings, credit unions and their members from just about every city and town in this country took the time to communicate the local credit union story to their representatives here in Washington. The results of this credit union message were evident during the deliberations of the committees. Within the Ways and Means Committee alone, motions to tax credit union were voted down on 5 separate occasions. The Senate version of the bill left the credit union tax exemption completely intact. As a result, the credit union tax exemption was once again sustained when the President signed the Tax Reform Act on October 22, 1986.

Barely 8 months later, our exemption has been surfaced again by the tax-writing staff in a lengthy list of revenue options for the committee's consideration. And once again I am asking the members of the committee to refresh your memories by reviewing the credit union message repeated in this statement. I am confident that you will then reaffirm your earlier decision that the financial and social benefits resulting from a non-profit tax free credit union system far exceed any possible loss in revenue associated with the exemption.

Proponents of credit union taxation have recently pointed to the growth of credit unions and suggest that credit unions should be taxed because they are a major competitive force in the financial marketplace. While we are flattered by this contention, the reality of the situation is not so conclusive. For example, the total assets of banks as of yearend 86 was $2.8 trillion as compared to the $166 billion for credit unions. In fact, credit union assets represent only 3.8% of the total assets of all financial institutions. The credit union share of the savings market is less than 6% and its share of the consumer credit market has fallen from 15.8% in 1979 to 13.0% in 1986. To really put this in perspective, let's consider that Citibank alone ($197 billion) is bigger than the entire credit union movement.

Proponents suggest that the "common bond" definitions have undergone changes permitting additional groups to receive credit union service and that somehow this is bad. In fact, the credit union delineation of its "field of membership" is often subject to change as the nature of society changes and traditional large (industry type) employers are replaced with smaller and more numerous service oriented employers. The fact remains that almost 90% of todays credit union are employee based serving very specific groups of employees. Credit unions continue to prefer serving groups because it produces the closer member-oriented relationship traditionally associated with a credit union.

Proponents suggest that it is inappropriate for the affluent to have the advantage of credit unions or for credit unions to keep up with the modern marketplace with new services such as credit cards. In the first place, many of the "affluent" within credit unions are persons who have been taught the lessons of systematic payroll deduction savings through their credit union and as a result have accumulated a degree of financial security. Surely, this is not to be viewed as inappropriate. Further since most credit unions serve specific employees, their rolls consist of persons who have steadily advanced in the workplace and remained loyal to the credit union. Additionally, in many credit unions, the resources of the more affluent are used to subsidize services for the less affluent. Finally, the credit union message is reaching many new and younger employee groups.

As for new services such as credit cards or ATM's, it would seem preposterous to us that credit union members should deprive themselves of various modern means to deliver basic financial services. It is only natural to move into whatever new technology or ideas that are developed in the financial marketplace. The important thing to remember is that all new credit union services are for the benefit of their members and are not used to generate profits for a group of shareholders.

Joint Committee Print

Mr. Chairman, perhaps the most relevant perception of the credit union tax matter is contained in the pros and cons of the Joint Committee Print itself. We would be happy to rest our case on these assessments. Let me explain:

The entire thrust of the pro arguments is that the credit union exemption is not fair to banks. In reality, Congress did not intend for credit unions and banks to be treated the same. Congress created a small segment of the market which would specialize in "fairness to the consumers". The real issue here is "fairness to consumers" not "fairness to banks". By creating, nurturing, and protecting a small (5-6%) consumer oriented sector of the financial market, Congress has exerted tremendous pressure on the rest of the market to also be consumer oriented. The mere presence of a viable credit union sector forces the economies of scale of the powerful dominant banking sector to be shared more equitably between their shareholders and the American consumer. Our central theme has always been that we must earn our tax exemption. Should we ever abandon our consumer orientation, the case for taxation should fall against us. In this vein, we are most heartened by the cons of the committee staff's argument. I quote verbatim and have highlighted the first thirteen words in reason #2. It says it all for us.

"1. Credit unions are distinguished from other financial institutions, because they are more directly controlled by their members, and generally are limited to making consumer loans.

2. Tax exemption enables credit unions to act in the interest of their members, rather than seeking higher returns in other, possibly riskier ventures."

Review of Credit Union Message

The following, Mr. Chairman, constitute the main points which credit unions and their representatives wish to communicate to the committee members. We simply ask that they be reviewed by all decision-makers when considering our situation.

- The tax exempt policy sustains a system of cooperative credit as a alternative to the "for profit" banking system. There is now a $170 billion system dedicated by law to providing consumer credit.

- Credit union taxation would fall primarily on marginal consumers. Marginal loans would be no longer made and small unprofitable accounts would be discouraged.

- Today's credit union system with its robust health, its can-do attitude and its willingness to solve its own problems exists intact with no major potential Federal liabilities. This is in sharp contrast with other sectors of the financial market.

- Taxation would pressure credit unions to: (1) reduce retained (undivided) earnings thereby reducing their safety cushion; (2)

seek higher risk investments to increase yield; (3) to make decisions based on the tax code instead of on members interests.

- Credit unions presently have 235,000 volunteers serving in our non-profit system; 33% of all credit unions have no full time employees.
- In 1984/85, credit unions used their resources to fully capitalize their central bank and their Federal insurance fund, (NCUSIF). These actions reduced the Federal deficit by $1 billion. Unless curtailed by taxation, our continued capitalization efforts would reduce the federal deficit an additional $1 billion by 1990.
- Many credit unions are serving inner city areas or troubled rural areas where the "for profit" institutions are leaving.
- Taxation would subdue, if not choke off, the credit union system's positive attitude, willingness, and even ability to solve its own problems. Instead there would evolve the more traditional reliance on the federal bailout.
- Our fee survey showed that 75% of credit unions offering share drafts do so with no routine charges; most have no charges for savings withdrawals; minimum balance requirements, if any, are much lower than at other institutions; 98% offering social security check cashing do it free; free travellers checks at 68% of credit unions offering them; and 94% make special arrangements for members facing loan problems.

In closing, Mr. Chairman, I thank you and the committee members for your openness to our message. We understand the most difficult decisions you must make. We only ask that our record be given a sincere review. We believe it speaks for itself.

Sincerely,

Joseph Perkowski

Joseph Perkowski
Chairman

MSU MICHIGAN STATE UNIVERSITY
FEDERAL CREDIT UNION
THE FINANCIAL INSTITUTION OF THE MSU AND OU COMMUNITIES

July 21, 1987

Honorable Dan Rostenkowski
Chairman, Ways and Means Committee
U.S. House of Representatives
House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

In discussing the tax issue next week in the House Ways and Means Committee, we hope you will vote against taxation of Credit Unions. The House and Senate have rejected this issue several times in the past.

The staff report that $1 billion could be raised in three years by taxing Credit Unions does not address the economic impact this would have on every Credit Union in the country. Many of the Credit Unions, especially the smaller ones, would not be able to survive. The larger Credit Unions, in order to be able to pay the tax, would have to change their philosophy from a non-profit to a profit motive. In doing so, they would have to stop issuing non-productive loans such as loans to students, grad assistants, low income, and emergency loans. We would also have to lower our dividend and raise our interest rate.

It is doubtful Congress realizes that Credit Unions help and sustain many families with financial problems which no other financial institutions will help, that we make loans to consumers who have no where else to turn. In addition, we continually counsel our members and try to educate them on the wise use of money. We help our members increase their savings, assist them in their retirement plans and also support various service organizations.

Credit Unions have already assisted in reducing the federal deficit by almost $2 billion, representing the money we have put in our insurance fund. Our regulatory agency is the only federal agency that is completely supported by the institutions it regulates - the Credit Unions. We use no tax money.

If we were to have to pay taxes, I am reasonably sure our Board of Directors would no longer be willing to volunteer their time but would insist on being paid. To put it plainly, taxation would mean the end of Credit Unions as they are now structured. This would be a blow not only to all Credit Unions but to the consumer.

Your help and understanding is greatly appreciated.

Sincerely,

Frances Lesnieski
President

600 E. CRESCENT • P.O. BOX 1208 • EAST LANSING, MI 48826 • (517) 353-2280

STATEMENT OF ROBERT A. HESS, CHAIRMAN, NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

Mr. Chairman:

The National Association of Federal Credit Unions (NAFCU) appreciates this opportunity to comment for the record as part of the Ways and Means Committee hearings on Revenue Increase Options. My name is Robert A. Hess, I am the Chairman of the Board of Directors. NAFCU is the only national organization exclusively representing the interests of credit unions chartered by the federal government. There are approximately 9,600 federal credit unions nationwide with over 31 million members. The entire universe of credit unions, both state and federally chartered, is approximately 15,000, with 54 million members.

NAFCU is deeply concerned by the proposal to repeal the tax-exempt status of credit unions made in the Description of Possible Options To Increase Revenues Prepared For the Committee on Ways and Means issued by the staff of the Joint Committee on Taxation. This proposal was thoroughly considered and dismissed by this Committee last Congress during the debate on the Tax Reform Act of 1986. The Committee's decision not to tax credit unions despite the fact that the President's tax reform proposal of 1985 had recommended a contrary course, was the product of a deliberate reflection on the part of the Committee that as member-owned, volunteer-oriented, nonprofit cooperatives, the taxation of federal credit unions would inure to the detriment of the millions of hardworking men and women who comprise credit union membership. Contrary to the rationale given by the Treasury Department in 1985 supporting the elimination of the credit union tax exemption, the members of this Committee saw that federal credit union operations are so circumscribed by statutory restrictions that there was no credibility to the contention that credit unions compete with other financial institutions. The federal statute under which federal credit unions operate does not allow these cooperative institutions to serve the general public or to offer the extensive array of loan and investment opportunities available to commercial financial institutions, making competition with these institutions an impossibility. After carefully considering the issue, this Committee recognized that financial institution competitiveness would not be enhanced through credit union taxation. This conclusion was urged by the Chairman and the ranking minority member of the House Banking Committee. Last July they wrote:

> As you know, credit unions are unique financial entities in that they are non-profit member-owned cooperatives. Credit unions are special purpose institutions, providing convenient and low-cost financial services to low and moderate income households. Meeting their special purpose would be jeopardized if credit unions were taxed. The fragmentation of the credit union community which would result from the decision to tax some credit unions but not others, because of asset size, would be equally as destructive and should be avoided.

In the less than twelve months that have elapsed since this Committee last considered the matter of repealing the tax exemption granted credit unions, nothing in the financial marketplace has changed to warrant a different outcome on this issue. For this reason, as the Committee considers the list of revenue options for 1988 NAFCU urges you to reject the proposal to tax credit unions.

An examination of the rationale underlying the proposal to repeal the credit union tax exemption, as contained in the document prepared by the Joint Taxation Committee, reveals its specious nature. As an association which represents federal credit unions we make this analysis in the context of the authorities provided federal credit unions under the Federal Credit Union Act (12 U.S.C. §1751). Statutes governing the operations of credit unions chartered at the state level may offer some variation.

The option offered by the staff of the Joint Tax Committee is the same as that made as part of the President's tax reform proposal in 1985: a repeal of the tax exemption for credit unions with $5 million or more in assets. These credit unions would be taxed on retained earnings.

By taking a divide and conquer approach, proponents of this proposal seek to chip away at the tax exemption that has historically been provided to federal credit unions. Admittedly only a minority of credit unions would be affected by this proposal; yet 80 percent of all credit union retained earnings, including statutory reserves, would be subject to tax. The number of credit unions that would be affected is not the basis upon which we criticize this proposal. It is the implicit assumption that underlies the proposal that once a credit union grows beyond a certain asset size, it is no longer a "credit union" in the true sense of the word. Nothing could be further from the truth!

Credit union asset size is in the vast majority of cases directly attributable to the number of members who belong to the credit union. By law, federal credit unions are only allowed to serve individuals who fall within a defined field of membership (12 U.S.C. §1759). While credit union members must share a common bond (based upon occupation, association or residence) credit unions which serve a field of membership encompassing a large group of people will naturally be larger in asset size than those which do not serve similarly large groups. For this reason, credit unions which serve the employees of large corporations or those enlisted in the military will frequently be larger in asset size than, for example, smaller church affiliated credit unions.

Size alone, however, is the only factor which distinguishes these credit unions from others. They continue to adhere to the philosophy of mutual self help and the non-profit ideals that have been the traditional lynchpin of the credit union community. As non-profit cooperatives, large credit unions as well as small extend credit to many individuals who are not able to qualify for loans from commercial institutions. They offer savings opportunities for small savers without the fees and minimum balance requirements that diminish the value of savings at some commercial institutions. Predicating a credit union tax on the basis of size fails to recognize the fundamental character of credit unions and effectively penalizes a credit union merely for serving a larger membership field than another institution. Frankly, the historical basis upon which credit unions have been exempt from tax is as valid today for credit unions with assets greater than $5 million as it is for all credit unions.

After proposing a tax on credit unions with assets of $5 million or more, the Joint Taxation Committee further suggests that the credit union tax be applied to retained earnings. Although the Joint Taxation Committee document indicates that a specified amount of credit union income could be exempt from tax, it offers no analysis of the ramifications of a tax on credit union retained earnings.

Under the Federal Credit Union Act (12 U.S.C. §1762) federal credit unions are required to retain a portion of their income in reserves. The statute specifies appropriate reserve levels according to the asset size of the credit union and the length of time it has been in operation. According to figures annually collected by the National Credit Union Administration, the regulatory agency with responsibility for regulating federal and federally insured credit unions, 56 percent of federal credit unions do not have reserves which meet the statutorily prescribed levels. By taxing retained earnings, Congress will further prolong the time before credit unions will attain their required reserve levels.

Reserves are the safety net which enable financial institutions to weather fluctuations in the financial marketplace. Appropriate reserves are not only critical to the safety and soundness of particular institutions, but they also provide an essential source of needed liquidity and ultimately protect the assets of the federal deposit insurance funds.

A tax on credit union retained earnings is inconsistent policy on two bases. First, such a tax is a deterrent to the establishment of sufficient reserves, the foundation of economic stability. Secondly, it seems blatantly inconsonant for one law (the Federal Credit Union Act) to require credit unions to retain earnings for the purposes of building reserves while another (the Internal Revenue Code) threatens to impose a tax on that very activity. Furthermore, given the vicissitudes of the financial marketplace and the record failures of banks and savings and loan associations over the past two years, it would seem particularly inappropriate for this Committee to consider an arguably capricious tax which would only weaken the healthy financial structure of our nation's credit unions.

In support of their proposal to tax credit unions, the Joint Committee on Taxation points to the similarity of credit union services to some of those offered by other financial institutions. We urge the Committee to reflect momentarily on this recommendation. The suggestion is that credit unions be taxed like banks because they offer certain similar services. While the Joint Committee accepts the similarity between credit union services and those of banks and savings and loan associations, it fails to take similar cognizance of the dissimilarities in the manner in which credit unions offer those services in relation to other providers.

The Committee should recall that the genesis of credit unions was the frustration of individuals who could not find credit opportunities and a favorable return on savings at commercial financial institutions. Typically, these individuals were farmers or factory workers, or small business people who were left with little alternative by the commercial financial institutions but to pool their resources to meet the borrowing and savings needs of their community. Today the minimal financial services necessary to exist in modern society are far more extensive than the basic loans and savings accounts that were once the staple of credit union members. Indeed, anyone who receives a regular check from the government is encouraged to receive that payment by direct deposit -- making transaction accounts a necessity for access to those funds. Credit cards are also fundamental vehicles for consumer transactions and money cards respond to the needs of those whose work schedules do not allow them to visit the credit union during business hours.

The increased level of services that credit unions have provided their members over the years reflects the increased needs of their membership in a growingly complex marketplace. The similarity of these services to those provided by banks and savings and loan associations is not a basis upon which the credit union tax exemption should be repealed. If you believe the rationale of the Joint Taxation Committee, credit unions should be taxed for being responsive to the needs of their members.

Another argument that the staff of the Joint Taxation Committee puts forward in favor of credit union taxation is that credit unions have an unfair competitive advantage over other financial institutions. Again, this rationale for taxing credit unions fails to accurately portray credit union services.

Credit unions do not "compete" with other financial institutions. As stated earlier, credit unions are nonprofit, volunteer-oriented, cooperative institutions which serve a limited field of membership. Federal credit unions are prevented from offering their services to the general public by the Federal Credit Union Act. Not being in the business to make a profit eliminates credit unions from competition. Credit unions do not seek to capture an increasingly large share of the market to satisfy an anonymous group of shareholders. Instead their activities are defined by the needs of their members who share an equal voice in determining the course their credit union will follow.

An assumption that underlies the Joint Taxation Committee's proposal is that credit unions are able to outprice other financial institutions because credit unions pay no taxes. This assumption fails to acknowledge however, how the pricing structure of other financial institutions would change if they were to operate on a non-profit basis. Additionally, 240,000 volunteers are the back bone of the credit union community. By statute, (12 U.S.C. §1761) only one credit union board member can be compensated for his or her services. Nationwide more than one-third of all credit union operations are entirely dependent upon volunteer support. The average bank director, on the other hand, receives a directors fee of approximately $13,000 annually. If credit unions enjoy a pricing advantage in terms of services, that advantage is the direct result of the strong volunteer support credit unions receive and their non-profit orientation. Credit union volunteers should not be rewarded for their dedicated service by repealing the tax exemption accorded credit unions.

As mentioned earlier, competitive parity will not come to the financial marketplace by taxing credit unions. Although some will mischaracterize the nature of credit unions, credit unions do not serve the general public or have the same lending and investment opportunities that other insitutions can offer. Credit unions are limited to serving a well defined field of membership and only make loans that have an overriding consumer orientation. Since credit unions are prohibited from making a profit, from serving the general public and from making anything other than consumer-oriented loans, it is difficult to appreciate how some can contend that credit unions can effectively "compete" with banks. On the contrary, a tax on retained earnings would weaken the financial stability of credit unions and work to the detriment of credit union members.

The credit union presence in the financial marketplace is oriented to services in areas that have been neglected by commercial financial institutions. If credit unions were to be taxed, this Committee would be validating a gross distortion of the credit union role in the financial marketplace.

Although credit unions do not pay taxes, they do make a significant contribution to deficit reduction. In January, as a result of a provision included in the Deficit Reduction Act of 1984, all federally insured credit unions which experience a growth in shares will be required to make a deposit with the National Credit Union Share Insurance Fund (NCUSIF), the federally administered insurance fund that insures accounts at federal credit unions up to $100,000. Since the 1984 law, to maintain the capitalization of the NCUSIF all federally insured credit unions have been required to maintain a deposit equivalent to one percent of their insured shares with the NCUSIF. These funds are held in the Treasury and as a result have a beneficial impact on deficit reduction, according to the Office of Management and Budget. For 1988, the annual federally insured credit unions contribution is expected to be $250 million, effectuating a dollar for dollar reduction in the deficit. Interestingly, this is $50 million more than the Joint Taxation Committee estimates will be generated by taxing the earnings of all credit unions in 1988. Since 1985, federally insured credit unions have contributed in excess of $1.2 billion to deficit reduction.

NAFCU urges the Ways & Means Committee to reject the proposal to repeal the credit union tax exemption. This proposal is no more valid today than it was last year when after due consideration, this Committee summarily rejected the same proposal.

FLAHERTY &
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July 14, 1987

Mr. Robert J. Leonard, Chief Counsel
Committee On Ways And Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

We are submitting for your consideration six copies of our comments on the possible proposals concerning the intercorporate dividends received deduction. Those proposals were contained in the "Description Of Possible Options To Increase Revenues Prepared For The Committee On Ways And Means" dated June 27, 1987.

Flaherty & Crumrine Incorporated is a major investment adviser (we think the leading one) in the area of preferred stock portfolios with approximately one billion dollars of such assets managed for a number of the country's leading corporations. We provide investment management on an economic, rather than a tax, basis; but the economics of what we do obviously depend upon the dividends received deduction. As a matter of policy, our portfolio management is not based upon dividend rolls, leverage or other "gimicks" which could be considered abuses.

We are concerned that the special circumstances of preferred stocks may be overlooked in the consideration of the dividends received deduction. Preferreds are often overwhelmed by the far more prominent market for common stocks, but they are very different from common stocks and need separate attention. We hope that the brief comments attached will meet that need.

We would welcome an opportunity to discuss these comments further with the Committee's staff and would be pleased to put our long experience with preferred stocks at your disposal.

Very truly yours,

Robert T. Flaherty

RTF:ll
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Summary Of Important Points Regarding The Intercorporate Dividends Received Deduction As It Applies To Preferred Stocks

It is essential that preferred stocks be analyzed separately from common stocks with regard to a possible reduction of the dividends received deduction. Although the dividends received deduction applies equally to preferreds and commons, they are entirely separate classes of securities which could be impacted very differently by such a change. Non-convertible preferred stocks are basically an alternative to debt securities. In contrast to common stocks, they have no claim on corporate income except for their established dividend rates. Over the years, a very specialized market has developed for preferreds which is totally dependent upon the dividends received deduction and the the after-tax yields of preferreds to corporate investors.

Because the preferred stock market is so thoroughly dependent upon the dividends received deduction, any reduction in it could impact dramatically the market prices and liquidity of preferred stocks. Such a reduction would harm the financial positions of companies with heavy investments in preferreds (notably the insurance industry) and increase the cost of capital to certain industries (utilities, banks and thrifts) which have traditionally relied on the preferred market to raise needed capital. The fallout of this could include higher utility rates and insurance premiums paid by the consumer and increased reliance on debt financing by industries which are already highly leveraged.

If corporations responded to a reduction in the dividends received deduction as expected by increasing the amount of debt in their capital structures, an unintended negative effect on tax revenues could occur. The decrease in the taxes of the corporations paying the interest would in all probability be greater than the increased taxes on the recipients of the interest.

Finally, abuses which occured a few years ago involving preferred stocks and the dividends received deduction have largely disappeared as a result of recent legislation, particularly the changes passed in 1984. The Tax Reform Act of 1986 and the revised corporate Alternative Minimum Tax included in it have decreased the incentive for abuse, and the effects of these changes are still surfacing. As a failsafe device, the "return of capital dividend" rules are generally effective in preventing income from escaping tax at the corporate level through use of the dividends received deduction. In our view, the abuses which remain involving publicly held preferred stocks are essentially matters requiring enforcement rather than legislation.

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COMMENTS ABOUT REDUCING THE DIVIDENDS RECEIVED DEDUCTION AS IT APPLIES TO PREFERRED STOCKS

1. Corporate investors have been the dominant buyers of preferreds since 1942 when the dividends received deduction came into its present form. The market for preferreds is priced efficiently on an after-tax yield basis relative to other securities. Therefore, there is no windfall to corporate buyers of preferred stocks; but there is a benefit to issuers in the form of a reduced cost of capital due to the reduction of double taxation at the corporate level.

2. Elimination of the dividends received deduction for preferred stocks would dramatically impair the market value of outstanding long term issues. This is a particular risk in the case of preferreds, as viewed separately from common stocks, since preferred stock prices are set almost exclusively by corporations on the basis of the dividends received deduction. Ending the dividends received deduction would force preferreds to compete in the market with the yields of senior ranking bonds. In the case of outstanding long term preferreds, the substantial increase in yields which would be necessary could only occur through sharp price declines. The impact of such a decline on the capital and surplus positions of certain insurance companies and thrift institutions could lead to higher insurance premiums and other costs to the consumer as well as to obvious problems of public policy.

3. Similarly, eliminating the dividends received deduction only for newly acquired preferred stock holdings would have the same catastrophic effect on the market value of existing long term preferreds in the hands of their present holders. Potential buyers of preferreds would demand yields competitive with those of fully taxable bonds as described in 2. above if the dividends received deduction were denied to them.

4. The reduction in the dividends received deduction from 85% to 80% under the Tax Reform Act of 1986 occured in the face of a reduction in corporate tax rates generally and was recognized by the market as a move designed to leave effective tax rates on dividends unchanged. Any further reduction in the dividends received deduction, even if small or phased in over time, could have a serious market impact since the market valuation of long term preferreds depends upon the willingness of corporate investors to rely on the dividends received deduction being undisturbed over

many years. Throwing that assumption into doubt could destroy the efficient functioning of the market for both new and existing preferreds. Uncertainty itself concerning the future "rules of the game" could cause a much greater adverse effect on market values and costs of capital than would be warranted by a small actual tax increase.

5. The utility industry is the dominant issuer of traditional long term sinking fund and perpetual preferreds. The increased yields which new issues of preferreds would have to offer as a result of a reduction of the dividends received deduction would increase the cost of capital to this industry, a burden which ultimately would fall upon the consumer in the form of higher rates. In addition, since this burden would fall only upon privately owned utilities, it would increase the disparity in the cost of capital between private and public providers of utility services.

6. The liquidity of the preferred stock market is importantly dependent upon its traditional constituency of corporate investors which rely on the dividends received deduction. Any significant reduction of the appeal of preferreds to this specific class of buyer would seriously impair the liquidity of the market for preferreds.

7. An efficient preferred stock market is a key to moderating potentially critical financial risks in highly leveraged industries. Without the dividends received deduction, the after-tax cost of financing through preferred stock would rise sharply relative to debt financing. We would expect a substantial shift to the issuance of debt securities which carry the risk of bankruptcy in the event of default, a risk not inherent in preferred stock financing.

8. Eliminating the economic attraction of buying stock of other corporations with temporary excess funds creates an incentive for a corporation to buy its own stock (i.e. shrink its equity base). This could potentially aggrevate the trend toward small equity bases and "junk" credits which is a threat to economic growth in periods when financing conditions are unfavorable.

9. Increased use of debt financing by corporations as an alternative to preferred stock could cause an adverse impact on tax revenues due to the deductibility of interest. Presently, the issuer of a preferred stock has, in all probability, paid a full corporate tax on the income from which the dividend was paid; and a corporate recipient of the dividend is subject to a partial tax in addition. If debt were issued instead, the issuer's tax would be reduced by the amount of the interest times the corporate tax rate which is now the highest of all income tax rates. If the buyer of the debt were a corporation, the tax revenue collected would only offset the tax saved by the issuer, and there would be no net revenue to the Treasury. If the buyer of the debt were an individual or a tax-exempt pension fund, the Treasury would lose revenue on the transaction. That revenue loss could be substantial (particularly in the case of a pension fund buyer) in contrast to a situation which now produces net revenue.

10. Reduction of double taxation at the corporate level really is working effectively. If healthy companies are avoiding taxes altogether, the means by which this occurs must be examined directly no matter what. The Tax Reform Act of 1986 and the revised corporate Alternative Minimum Tax presumably will greatly reduce the number of companies in this category. The "return of capital dividend" rules provide a failsafe protection against dividend payments being eligible for the dividends received deduction unless paid out of previously taxed income. The effect of return of capital treatment is to reduce a shareholder's basis which causes the distribution effectively to be taxed as a capital gain at the time of sale and, therefore, at the same tax rate as ordinary income beginning in 1988.

11. There is an essential difference between dividend income and interest income to a corporation. Dividend income, in all likelihood, has already been taxed at the corporate level while interest has most certainly not been taxed.

12. The "complex anti-abuse provisions in the code" referred to in the staff report regarding the dividends received deduction have been quite effective, and the abuses which remain are probably matters for enforcement rather than legislation. Riskless arbitrages providing tax benefits are already a thing of the past.

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July 14, 1987

Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Leonard:

This letter is in response to a report on possible options to increase revenues prepared for the Committee on Ways and Means by the Staff of the Joint Committee on Taxation dated June 25, 1987. We are enclosing six (6) copies as we want this written statement to be printed as part of the record of the hearings held in this matter.

We are concerned that the Staff has identified the intercorporate dividends received deduction as an option to be eliminated or reduced. In our business as serving as a broker-dealer and investment manager specializing in electric, gas and telephone utility securities for the institutional investor community, we believe that it is vital to retain the dividends received deduction in its present form. It is our professional opinion that eliminating the dividends received deduction will result in a 15 to 20 percent decline in the value of utility common and preferred stocks.

The economic arguments in favor of the dividends received deduction are well known. The deduction ameliorates the double layer of taxation on corporate funds that are used to pay dividends. Furthermore, the dividends received deduction eliminates the distortion in the choice between debt and equity financing. The interest deduction available for debt financing would make such financing preferable to equity financing. The interest deduction available for debt financing which would have no comparable deduction if the dividends received deduction were eliminated.

Corporate investors perceive the dividends received deduction as extremely important in investing in the stock of utility companies. Institutional investors such as insurance companies are significant participants in the stock market for utilities. The elimination of the dividends received deduction would force insurance companies to liquidate their utility holdings. Thus, the costs that utilities would incur to raise capital would be increased. The result would be that utilities would be forced to seek rate increases from their customers in order to maintain their attractiveness to the investment community. Insurance companies, which derive a significant portion of their income from investment income, would experience a reduction in that form of income. Insurance companies with lower income might have to seek the same types of rate increases for their insurance products to offset the loss of investment income. It would thus appear that the true cost of the elimination of the dividends received deduction falls on the low and middle American who pays utility rates and insurance premiums.

The dividends received deduction was thoroughly examined by Congress in the course of enacting the Tax Reform Act of 1984. The theoretical underpinnings of the deduction were exhaustively reviewed and the conclusion was that the deduction was an important part of the federal tax structure. Complex anti-abuse rules were enacted in 1984 to strengthen the legitimate purposes behind the dividends received deduction. In 1986, the entire federal tax code was overhauled and the dividends received deduction was cut to 80 percent to maintain the approximate same after-tax return to a corporate investor given the new corporate rate reductions. At the same time a new corporate alternative minimum tax was enacted which exposed dividends received by a corporate investor to additional taxation through the mechanism of taxing one-half of the book income of a corporation.

Our clients have established investment programs in reliance on the provisions of the 1984 and 1986 Acts. As a matter of fairness to investors who relied on the statutory changes in 1984 and 1986, there should be no repeal of the dividends received deduction.

We respectfully submit these comments for your consideration.

Very truly yours,

George A. Weiss

GAW/dhl

INGERSOLL-RAND

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July 13, 1987

House Ways & Means Committee
1102 Longworth House Office
Washington, D. C. 20515

Attention: Mr. Rob Leonard
Staff Officer

Gentlemen:

Ingersoll-Rand Company is aware that the Committee on Ways and Means is considering the elimination of the 80% Dividend-Received Deduction under Section 243(a)(1) of the Internal Revenue Code as a possible option to increase federal revenues.

The 80% Dividend Received Deduction provides companies such as Ingersoll-Rand with the opportunity to issue adjustable-rate preference stock at favorable rates. This low cost source of capital allows Ingersoll-Rand to operate more efficiently and, therefore, is a key factor in our ongoing efforts to preserve and create employment.

Elimination or even reduction of the Dividend-Received Deduction would significantly increase our operating costs.

The issuance of adjustable-rate preference stock is a market we have enjoyed in the past and would like to continue to use in the future. Therefore, we strongly urge you not to consider changing the 80% Dividend-Received Deduction as a possible revenue raising option.

Very truly yours,

INGERSOLL-RAND COMPANY

Nancy Casablanca

Nancy R. Casablanca
Assistant Treasurer

rd

1072C

Testimony of Scott L. Lummer, Ph.D.

before the House Committee on Ways and Means

July 13, 1987

Mr. Chairman and Members of the Committee:

My name is Scott L. Lummer, and I am an Assistant Professor of Finance at Texas A & M University. I am writing in response to some of the suggestions contained in the pamphlet: Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means, Joint Committee on Taxation (JCS - 17 - 87), June 25, 1987. Specifically, my comments are in reference to the options regarding the dividends received deduction stated in section 9a of the pamphlet. Much of my past academic research concerns the dividends received deduction, and I have published four research papers in scholarly journals with that as the subject.

The pamphlet suggested either reducing the dividends received deduction from its current level of 80%, or eliminating it altogether. While several arguments for and against those proposals were raised in the pamphlet, my opinion is that several potential effects of the proposals were not addressed. My basic feeling is that the dividends received deduction should not be reduced any further; in fact, I suggest that it be increased to its previous level of 85%. I have four main reasons, not listed in the pamphlet, for having this opinion.

1. The use of the dividends received deductions encourages corporations to raise more long-term capital, which is beneficial for the economy.

Current economic and tax factors create incentives for companies to raise short-term capital (loans maturing in the near future) as opposed to long-term funds (long-term debt and equity). There are two main reasons for these incentives. First, short-term capital is usually cheaper than long-term funds. Second, and more importantly, firms are encouraged to minimize the amount of funds not currently needed for expenditures on fixed-asset investment projects. When businesses have short-term surpluses of funds, they invest them in the capital market and nearly always earn a "negative spread" -- the returns generated by the investments are exceeded by the cost of the company's funds. This negative spread reduces corporate profitability and, in turn, shareholder value. One method of avoiding surplus funds is to raise as little capital as possible on a long-term basis; i.e., to wait until the last possible minute to obtain the required capital.

However, the many problems encountered by firms who have raised too much short-term capital are well documented. Heavy reliance on short-term funds causes a company's financial health to be highly sensitive to changes in credit and interest rate conditions. Basically, an overabundance of short-term borrowing reduces financial flexibility, increases the probability of bankruptcy, causes a heightened volatility in the stock and bond markets, and can be generally considered as an economic evil. One way to encourage firms to employ more long-term capital is to allow them to decrease the negative spread on their short-term investments. The dividends received deduction reduces the disadvantage of short-term investing by eliminating the triple taxation of dividend income (at the corporate security, corporate investor, and individual shareholder level). If the dividends reveived deduction is reduced, businesses will likely employ even more short-term borrowing, thereby increasing the financial risk of individual companies and the overall economy.

2. The majority of companies using the dividends received deduction do not purchase equities for arbitrage reasons.

The pamphlet suggested that many firms use the dividends received deduction to engage in arbitrage transactions. Although a few companies may purchase equities with that intent, the vast majority are simply looking for a reduction in the negative spread. In today's market even the most aggressive, and risky, strategies involving short-term equity investment by corporations earn no more that a 10% after-tax return. However, nearly all U.S. companies would estimate their cost of capital to be significantly higher than that level. Consequently, it is difficult to comprehend how a corporation can effectively earn arbitrage profits when their cost of funds exceeds their returns, especially when considering that the equity investments cannot be debt financed.

3. The dividends received deduction gives businesses that are incurring operating difficulties an alternative to high-cost financing options.

Companies that have incurred poor financial performance resulting in operating losses face many obstacles in turning their executiion quality around. Obviously, an effort to improve upon past operating performance necessitates the making of capital investments. However, since fundamental financial analysis suggests that financing costs should be measured on an after-tax basis, the cost of capital for firms that have been generating operating losses appears to be higher than it is for their profitable counterparts, which find it valuable to deduct the interest payments. For example, a company that has been incurring losses views a 10% interest charge as a 10% after-tax cost, while a profitable firm with a 30% average tax rate considers the same loan to cost 7% after-tax. Thus, the businesses that have the most dire need to make capital investments are the businesses that face the highest capital costs.

Decreasing the dividends received deduction could effectively eliminate financing vehicles such as floating rate preferred stock. Those instruments have allowed firms that have been incurring losses to remain somewhat competitive, in terms of financing costs, with profitable companies. It should be noted that even by using floating rate preferred stock, an unprofitable firm would never achieve a lower cost of funds than a profitable company using debt. Corporations are not gaining arbitrage through the tax code by issuing floating rate preferred stock; they are merely putting themselves closer to an equal footing with their profitable competitors. Hence, reducing the dividends received deduction would cause severe damage to businesses experiencing operating difficulties.

4. The benefits in terms of additional tax revenue that would result from decreasing the dividends received deduction may be overestimated.

Although I have no information on how the figures in the table on page 165 of the pamphlet were derived, it is important to note that any projected increase in tax revenue could easily be exaggerated. It is a virtual certainty that alteration of the dividends received deduction would cause investors and issuers to adjust their behavior. Specifically, if the dividends received deduction is reduced, the amount of floating rate preferred stock issued would be reduced. Moreover, the dividend yield on common stocks would fall slightly. Hence, there would be less aggregate dividend income available to tax, and the actual revenue derived from the proposed changes could be less than is currently forecasted.

For the reasons described above, I strongly suggest that the committee find some means of increasing tax revenue other than adjusting the dividends received deduction. I hope that the committee finds this testimony useful as they consider what steps to take to reduce the projected shortfall in tax contributions.

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OF COUNSEL
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July 17, 1987

Mr. Robert J. Leonard
Chief Tax Counsel
Committee on Ways and Means
Longworth House Office Building
Room 1111
Washington, D.C. 20515

Re: Possible Options to Increase Revenues--The Dividends Received Deduction

Dear Rob:

Under present law, as modified by the Tax Reform Act of 1986, a corporation that owns less than 80 percent of the stock of a corporation paying a dividend is allowed a deduction equal to 80 percent of the amount of the dividends received. A corporation that owns 80 percent or more of the stock of a dividend paying corporation is allowed a 100-percent deduction for the dividends received.

One of the options currently being considered to raise revenue is to modify the dividends received deduction for corporate shareholders who own less than 80 percent of the stock of the corporation paying a dividend. One proposal is to eliminate the dividends received deduction for investments of less than some minimum percentage (e.g., 10 or 20 percent) in the stock of the payor corporation. Another proposal is to reduce the current 80 percent deduction or phase it out entirely.

I strongly urge you to reject any modification to the dividends received deduction. The purpose for enacting the dividends received deduction was to insure that income is taxed only once at the corporate level, with a second level of tax imposed upon distribution to individual shareholders. The current dividends received deduction distorts this purpose by allowing only an 80-percent deduction. That distortion should not be exaggerated by reducing the deduction.

In addition, eliminating the DRD for portfolio investors would result in a change in the investing policies of corporations, either leading to less external investing or to more investment in tax-exempts. This alteration in investing could deplete a great deal of the capital needed by corporations, which previously have raised capital from portfolio investors to conduct their activities, thus forcing corporations to borrow needed capital thereby increasing their reliance on debt. Also, in the absence of a DRD for portfolio investors, corporations would be encouraged to reinvest earnings internally, even when such investment is not the most efficient use of such funds, simply in order to avoid the second level of corporate tax.

Thank you for your consideration of this matter. Attached is a more detailed memorandum that discusses this issue.

Sincerely yours,

William P. McClure

Attachment

cc: Janice A. Mays
Maxine Champion

July 17, 1987

MEMORANDUM

To: Robert J. Leonard

From: William P. McClure

Re: Possible Options to Increase Revenues--The Dividends Received Deduction

One of the options contained in the Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means concerns modifications to the dividends received deduction. Under present law, as modified by the Tax Reform Act of 1986, a corporation that owns less than 80 percent of the stock of a corporation paying a dividend is allowed a deduction equal to 80 percent of the amount of the dividends received. A corporation that owns 80 percent or more of the stock of a dividend paying corporation is allowed a 100-percent deduction for the dividends received.

Two possible revenue options have been described that would modify the current treatment of dividends received by a corporation. First, it is suggested that the dividends received deduction (the "DRD") could be eliminated in cases where the payee does not own some minimum amount of stock in the corporation distributing the dividend (e.g., 10 or 20 percent). Such a low level of investment in the stock of another corporation has sometimes been referred to as a "portfolio" investment, which, it is argued, should be taxed the same way whether the investor is a corporation or an individual.

Second, it is suggested that the 80-percent DRD could be reduced to 75 percent or some other percentage of the amount of the dividend, or phased out entirely. No proposal has been made to eliminate or modify the 100-percent DRD. For the reasons discussed below, I respectfully assert that neither of the two staff options constitutes a legitimate source for revenue generation.

The DRD has existed in the federal tax law since 1909 when corporate income first became taxable. The reason given for the original DRD was to insure that income earned by a corporation would not be taxed more than once at the corporate level. A 100-percent

DRD was therefore adopted in conjunction with the first corporate income tax for all dividends received by corporations. The first reduction in the DRD occurred in 1935. At that time, graduated corporate income tax rates were introduced by adding a surtax to income above a certain level (the "surtax exemption" amount). It was feared that large corporations would split their income among several subsidiaries in order to get the advantage of multiple surtax exemptions and thereby avoid the surtax. The income of the subsidiaries would be distributed back to the parent as a dividend that was tax-free due to the 100-percent DRD. In order to discourage such income splitting, the DRD was reduced from 100 percent to 90 percent (and reduced again to 85 percent in 1936), thereby imposing double corporate taxation on a portion of intercorporate dividend distributions. In 1964, Congress reinstituted the 100-percent DRD, but only for affiliated groups (80-percent ownership) that elected to use only one surtax exemption. All other corporations continued to receive an 85-percent DRD. By 1975, all affiliated groups were provided only one surtax exemption, but received a 100-percent DRD. Thus, by 1975 the reason for the original reduction in the DRD had been eliminated (i.e., multiple surtax exemptions had been eliminated for affiliated groups); however, Congress failed to restore the 100-percent DRD to all corporations (since nonaffiliated corporations continued to receive only an 85-percent DRD), thereby preserving a double tax on a portion of corporate dividend income even though the second level of tax no longer served its original purpose. Last year the 85-percent DRD was reduced to 80 percent.

There are two competing theories of how to tax intercorporate distributions. Under the first theory, corporate income is taxed exactly once at the corporate level, with a second level of tax imposed upon the distribution of such income to an individual. Under this theory, a 100-percent DRD is needed to insure that intercorporate dividends are subject to only one level of corporate taxation. This first theory, which was implemented from 1909 to 1935, is to be contrasted with the theory that dividends should be fully taxed for corporations as they are for individuals. Under this theory, a 100-percent DRD would be allowed only when the corporate payor and the corporate payee constitute, in effect, a single economic entity. Two corporations could be regarded as a single economic entity whenever one corporation has a sufficient ownership interest in the other. A "sufficient" ownership interest might be 100 percent, 80 percent, or some lesser interest, but certainly not less than 50 percent. In all other cases, no DRD would be allowed. The present law is obviously inconsistent with both theories, allowing a complete exclusion for intercorporate dividends in some situations, while partially taxing intercorporate dividends in other situations. The present proposals would further perpetuate this inconsistency. This inconsistency may have made some sense when partial taxation was used to discourage the use of multiple surtax exemptions, but it makes no sense today.

Some have argued that a tax on dividends from "portfolio" investments is necessary because market distortions result from allowing the DRD on such investments. First, we reject the point that market distortions occur. However, assuming they do, it is unwarranted to conclude that the benefit of any "market distortion" goes exclusively, or even primarily, to corporate portfolio investors. Three groups predominate the market: (1) individual investors who are fully taxable on dividends; (2) corporate portfolio investors who are partially taxed on dividends; and (3) affiliated group corporate investors and institutional investors that are not taxed on dividends. Any one of these three groups could be the beneficiary of distortions in the market or could carry the burden of such distortions. Basing tax policy on the unproven assumption that it is the corporate portfolio investors who are the beneficiaries of any market distortion is bad tax policy.

In addition, eliminating the DRD for portfolio investors would result in a change in the investing policies of corporations, either leading to less external investing or to more investment in tax-exempts. This alteration in investing could remove a great deal of the capital from corporations which previously have raised capital from portfolio investors to conduct their activities, forcing the corporations to borrow needed capital thereby increasing their reliance on debt. The elimination of the DRD for portfolio investors would also accentuate the distortive effects of the absence of integration between the corporate and individual tax systems. In the absence of a DRD for portfolio investors, corporations would be encouraged to reinvest earnings internally, even when such investment is not the most efficient use of such funds, simply in order to avoid the second level of corporate tax.

Assuming there is a need for an examination of the DRD, such a reevaluation can only take place in the context of a reevaluation of the entire corporate income tax system. Various solutions have been put forth to develop a more consistent treatment of intercorporate dividends, including the introduction of a dividends paid deduction and providing adjustments to the basis of stock in subsidiaries to take account of income earned at that level. Such modifications would address the problems with the DRD identified in the proposal without furthering the inconsistencies in the present DRD. I strongly suggest that a review of the taxation of intercorporate dividends should be part of the Treasury Department's review of Subchapter C in order to coordinate the treatment of such dividends with other changes to the corporate income tax.

I believe that the original justification for the DRD, i.e., taxing income only once at the corporate level, is the proper approach to follow. The proposal to reduce or eliminate the DRD for nonaffiliated corporations violates that approach. To change the law as suggested would increase the double taxation of corporations earnings even further than the existing system which limits the DRD to 80 percent unless there is an 80-percent ownership interest.

In conclusion, I strongly urge you to consider not making any changes to the DRD in order to raise revenue. Instead, changes to the DRD should be part of a comprehensive review of our corporate tax system. Any interim changes to the DRD would further accentuate the existing inconsistencies in the deduction and could have a dramatic effect on a major source of capital available to corporations.

Supplemental Statement
of
Mikel M. Rollyson

Submitted July 15, 1987 to
the House of Representatives
Committee on Ways and Means

Introduction

I am a member of the firm of Davis Polk & Wardwell and formerly held the position of Tax Legislative Counsel in the Treasury Department's office of Tax Policy. Our firm represents numerous corporate clients, and I submit this statement in the hope that it will lead to a better understanding of a problem with potentially broad reaching consequences for the corporate income tax.

In summary, I recommend that the Committee instruct the Treasury to change the consolidated return regulations to resolve what has come to be known as the Woods Investment problem.* The solutions to this problem proposed by the staffs, however, are overreaching. They would result in (i) overtaxing corporate taxpayers, (ii) inappropriately denying corporate taxpayers the benefits of accelerated depreciation conferred by Congress, and (iii) unnecessarily altering the fundamental structure of the consolidated return regulations, without benefit of the Treasury's Subchapter C study. I suggest that the Committee direct Treasury to adopt a more moderate approach; one that should raise significant revenues, end the Woods Investment abuses, and yet not alter the fundamental structure of the consolidated return regulations.

Background

Prior to 1966 the consolidated return regulations required investment adjustments only in respect of a subsidiary's taxable losses. Such losses reduced the parent's basis in the subsidiary to the extent they were utilized in a consolidated return and could not have been used on a separate return of the subsidiary. Under that system, expenses not reflected in taxable income, such as excess charitable contributions, would not affect the affiliated parent's basis in its subsidiary's stock. Since, however, such expenses would affect the value of the subsidiary's stock, they were indirectly deductible because they reduced taxable gain to the parent on a sale of the subsidiary's stock. Similarly, positive adjustments were not permitted for profits earned and retained by a subsidiary, or for receipts not reflected in taxable income. Thus, unless a subsidiary corporation paid a dividend to its parent prior to the disposition of a subsidiary's stock, income taxed when earned by the subsidiary was taxed again when the subsidiary was sold.

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* Congress has delegated to the Treasury broad authority to promulgate legislative regulations relating to consolidated returns, and Congress has never attempted to legislate the complex provisions of those regulations. In keeping with that tradition, Congress should not legislate the mechanical rules by which this problem is to be solved. Rather, in order to halt significant further revenue losses, Congress should provide immediate guidance as to the proper solution to this problem, while leaving the implementation of that solution to the Treasury Department.

By abandoning an approach that focused on the tax deductions available to a subsidiary and adopting an approach that focuses largely on the parent's equity interest in its subsidiary as reflected in the subsidiary's earnings and profits, the Treasury Department moved away from a regime in which a subsidiary's income or losses already accounted for on a consolidated return were recognized again as investment gain or loss when the subsidiary's stock was disposed of.

The more complete tax consolidation of affiliated corporations achieved by Treas. Reg. § 1.1502-32 is quite clearly a two-way street for taxpayers. Certain expenditures, such as federal income tax payments and unreasonable compensation, require a negative basis adjustment even though they produce no corresponding tax benefit. On the other hand, tax-free receipts will ordinarily produce a positive basis adjustment even though they generate no tax cost.

Because the consolidated return investment adjustment regulations measure the parent corporation's investment in its subsidiary by looking to the subsidiary's earnings and profits, statutory changes in methods for determining earnings and profits have an impact on basis adjustments. One such statutory change was enacted in 1969, when Congress put in place what is now Section 312(k). That section provides, in general, that in determining earnings and profits a corporation must use the straight line method of depreciation even if for tax purposes it uses an accelerated method. Strict adherence to this rule, however, can result in a mismeasurement of the gain or loss to a parent on the sale of a subsidiary with which it files a consolidated return.

The interplay of the consolidated return regulations and Section 312(k) was at issue in Woods Investment Co. v. Commissioner, 85 T.C. 274 (1985). Woods Investment Company ("Woods") sold the stock of several subsidiaries that used accelerated methods to depreciate the property they owned. The Commissioner asserted that in computing its gain Woods used too high a basis. The court explained that as required by the applicable consolidated return regulations, Woods calculated the earnings and profits of the subsidiaries, applying Section 312(k), and then used those figures to adjust its basis in the subsidiaries' stock. The Commissioner conceded that the taxpayer had "properly adjusted its basis in the subsidiaries' stock to reflect the subsidiaries' increase or decrease in earnings and profits." Id. at 278. He argued, however, that the taxpayer should have further reduced "its basis in the subsidiaries' stock for the excess amount of accelerated over straight-line depreciation in order to prevent petitioner from obtaining what [the Commissioner] perceives to be a 'double deduction.'" Id. at 279. The Commissioner attempted to draw support for his arguments from Treas. Reg. § 1.1016-6(a), which provides that basis "adjustments must always be made to eliminate double deductions or their equivalent." He also sought support from the Supreme Court's decision in Ilfeld Co. v. Hernandez, 292 U.S. 62 (1934), in which the Supreme

Court "denied the taxpayer what it found to be the practical equivalent of a double deduction." 85 T.C. at 279.

The Tax Court began its analysis by pointing out that Congress has never attempted to legislate in the highly technical area of the consolidated return regulations, but has instead delegated broad rulemaking authority to the Commissioner. Those regulations promulgated by the Commissioner are, in turn, legislative in character and "will be followed and not overruled by this Court unless clearly contrary to the will of Congress." Id. The court observed that when the Commissioner in 1966 chose earnings and profits as the

> "measuring rod for adjusting basis under section 1.1502-32, Income Tax Regs., . . . he was well aware that various items and transactions are treated one way in computing taxable income and another way in computing earnings and profits. . . . Nevertheless, despite his awareness in 1966 of the difference between earnings and profits and taxable income, [the Commissioner] chose earnings and profits as the measuring rod for adjustments to basis and made no special provisions for any differences that did not reduce earnings and profits by the entire amount deducted from taxable income." Id. at 280-81 (citations and footnote omitted).

Refusing to create a judicial exception to the consolidated return regulations, the court declared that "[i]f [the Commissioner] believes that his regulations and section 312(k) together cause petitioner to receive a 'double deduction,' then [he] should use his broad power to amend his regulations." Id. at 282. Finally, the court distinguished the Supreme Court's decision in Ilfeld and pointed out that Treas. Reg. § 1.1016-6(a) could not be read to override the more specific command embodied in Treas. Reg. § 1.1502-32.

Because the court refused to sanction a judicial solution to the adjustment problem created by Section 312(k)'s interaction with Treas. Reg. § 1.1502-32, and because to date the Commissioner has not acted through the regulatory process to solve the problem, the distortion addressed by the Commissioner in Woods Investment still exists.

Description of Staff Proposals

The Staff Report presents two, apparently alternative, proposals to deal with the situation presented in Woods Investment. First, it suggests that "[t]he parent's basis in stock of a subsidiary with which it files a consolidated return could be adjusted only to the extent the subsidiary's basis in its assets is adjusted (e.g., the parent's basis with respect to deferral items could be adjusted only to the extent of recognized gain or loss)." This proposal would implement through legislation the litigating position taken by the Commissioner in Woods Investment, such that a parent would be required to make a negative basis adjustment in the stock of a subsidiary to the full extent of accelerated depreciation used by that subsidiary.

An alternative proposal presented in the Staff Report is to restrict the operation of Section 312(k) to taxpayers other than corporations owning more than 20 percent of another corporation. This proposal would have the identical effect as the first proposal as it applies to depreciation allowances. Both of these proposals have implications for Section 312(n) as well as Section 312(k), and the conceptual basis of the solution proposed herein would seem also to be appropriate for the situations presented in Section 312(n).

Discussion

The consolidated return regulations ought to be modified to put an end to the distortions illustrated by Woods Investment, and, if possible, these changes ought to be made through the regulatory process, rather than by legislation. The suggestions contained in the Staff Report, however, would implement changes that go far beyond that which is necessary to cure the Woods Investment problem. The staff proposals would alter one of the fundamental decisions made in promulgating the 1966 consolidated return regulations, and would require that decisions be made now on issues that relate to the fundamental structure of the corporate income tax. Such decisions should not be made without the benefit of the Treasury Department's Subchapter C study.

This statement urges that the Committee take steps now to ensure that regulations will be issued promptly by the Treasury Department that will eliminate the Woods Investment problem, and also urges the Committee to defer consideration of issues that involve a fundamental rethinking of either the approach to the consolidated return regulations adopted in 1966 or the structure of Subchapter C. This can be done by adopting the proposal detailed below, which represents only a technical change to the existing consolidated return regulations. My proposal not only achieves the goals stated above, but also produces what I believe is the proper tax policy result under the current regulations.

Identifying the Source of the Woods Investment Problem. A simple example involving a parent corporation owning a single subsidiary with a depreciable asset illustrates the problem addressed by the staff and the effects of the proposed solutions. Consider a parent corporation ("P") that makes a $100.00 investment in its wholly owned subsidiary ("S"). The subsidiary purchases an asset with a basis of $100.00. In year one the subsidiary takes accelerated depreciation of $20.00, whereas straight line depreciation would result in a $10.00 deduction.* Assume also that the depreciable asset produces gross income in year one of $20.00. The $20.00 of depreciation deductions offsets the $20.00 of income, so that S's taxable income in year one is zero.

Under the consolidated return investment adjustment rules in Treas. Reg. § 1.1502-32 and Section 312(k), P will reduce its basis in the S stock by the $10.00 of straight line depreciation, and increase its basis by the $20.00 of gross income, resulting in a net positive adjustment to P's basis in S of $10.00, raising the basis to $110.00. A purchaser ("X") of the stock of S, however, will not pay $110.00

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* For purposes of these examples, I assume that straight line depreciation equals economic depreciation.

for S because the value of S is not a full $110.00. Although S has an asset worth $90.00 and $20.00 of cash, it also has a deferred tax liability of $3.40* as a result of electing to claim accelerated depreciation.** Upon acquiring the stock of S, X will be acquiring an asset worth $90.00, but with a basis of only $80.00.*** X, then, will discount the value of the S stock by $3.40 to reflect the deferred tax liability created by the accelerated depreciation deduction.**** Thus, X will pay only $106.60 for the S stock, leaving P with a tax loss of $3.40. This result is clearly inappropriate in that it gives P a $3.40 loss when P suffers no economic loss.

The options suggested by the staff would measure P's investment adjustment in S by reference to the accelerated depreciation claimed by S, rather than by reference to the straight line depreciation. Thus, in the above example, P's basis would be reduced by the full $20.00 of accelerated depreciation, and would be increased by the $20.00 of gross income, resulting in no investment adjustment and a basis of $100.00 in the stock of the subsidiary. A purchaser of the stock of the subsidiary, however, would still pay $106.60 for the stock because that is the value of S, as explained above. The staff approach, then, results in a $6.60 taxable gain to P.

Taxing P on a gain of $6.60 in this case has some instinctive appeal. Proponents of the staff proposals undoubtedly argue that P invested $100.00 in S and has received $106.60 on the sale of S, and thus should be taxed on its gain of $6.60. The analysis of how P ought to be taxed should not stop there, however; one should also consider how the purchaser of the S stock, X, will be taxed. The consolidated return regulations should operate to ensure, as will be illustrated shortly, that in this situation corporate level tax is collected on the $10.00 difference between the depreciable asset's basis and value.

Under the staff proposals, the $10.00 of built-in gain represented by the difference between the basis and the value may produce $16.60 of taxable gain. This is so because while X will have a $106.60 basis in the S stock, S's basis in the depreciable asset remains at $80.00. When S sells the asset or consumes it through use in its business, the $10.00 of built-in gain that arose out of the accelerated depreciation method used by S will be recaptured. For example, if S were to sell the asset for $90.00 immediately after X's purchase of the S stock, S would recognize $10.00

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* This statement uses examples applying the top corporate tax rate of 34% for tax years beginning on or after July 1, 1987.

** A deferred tax liability is created because although S is permitted to take greater than straight line depreciation in the early years, in the later years it is limited to less than straight line depreciation; thus, in those later years it pays tax, in effect, on income it was permitted to offset in the earlier years.

*** This assumes no Section 338 or 338(h)(10) election is made.

**** This example ignores the fact that the present value of the deferred tax liability would be something less than $3.40.

of gain. There is no reason why a $10.00 built-in gain that results from taking $10.00 of accelerated depreciation deductions should produce $16.60 of taxable income. It is not clear from the staff proposals whether S's $10.00 gain would produce an investment adjustment to the S stock now held by X. If not, when X sells the S stock no loss would be recognized by X and a total of $16.60 would be subject to tax.*

Possibly the staff proposals do not intend to produce this result. It could be avoided by permitting the purchaser the investment adjustment referred to above; X would have a $10.00 positive adjustment for the gain realized by S and a $3.40 negative adjustment for the taxes paid by S. Making these adjustments would give X an adjusted basis in the S stock of $113.20, and a sale of S would yield a $6.60 loss. Arguably, then, the correct overall result would have been achieved; the $6.60 loss to X would equal the $6.60 gain to P, and only the $10.00 of built-in gain would have been subjected to corporate tax. The obvious problem with this approach is that the purchaser, X, has had no economic gain or loss, and there is no reason for the purchaser to have a $6.60 loss. A system that produces artificial losses is one that will only create abuses. One suspects, therefore, that the staff proposals would not give the purchaser any basis adjustment and would extract taxes on $16.60 of gain.

My proposal, which can be referred to as the Tax-Adjusted Proposal, attempts to solve the technical deficiencies of the current investment adjustment rules without changing the structure of the existing regulations. It ensures that the $10.00 of depreciation recapture gain will be taxed, but that no more and no less gain will be taxed. It guarantees that no corporate taxes are avoided, and it does not overtax assets subject to accelerated depreciation.

As stated above, the consolidated return regulations should operate in this case to extract one corporate level tax on the $10.00 of depreciation recapture gain. As the Woods Investment example shows, however, the regulations mechanically fail to collect this tax. Returning to our example, it can be seen that the current regulations give P an inappropriate $3.40 loss. The technical defect of the present regulations is their failure to adjust the earnings and profits created by Section 312(k) by the deferred taxes associated with those earnings and profits. If the earnings and profits adjustment were further adjusted for the $3.40 of deferred taxes,** P's basis in S would rise only to $106.60 ($100.00 plus $20.00 income, less $10.00 straight line depreciation and $3.40 deferred taxes). On the sale of S, P would recognize no gain or loss. The $10.00 of depreciation recapture gain will be taxed fully when S either sells or consumes the property. For example, if S sells the depreciable asset for $90.00, it will recognize $10.00 of gain. The amended regulations should also provide that neither this built-in depreciation recapture gain nor the $3.40 taxes paid on that gain produce any further investment adjustment. Thus, if the purchaser, X, sells the S stock for $106.60 (its value both before and after the sale of the depreciable asset) no further gain or loss would be recognized. Thus, under the Tax-Adjusted Proposal the $10.00 of depreciation recapture gain is taxed to S, the party with the built-in gain, and no other party is undertaxed or overtaxed.

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* This assumes that if under the staff proposal there was no upward adjustment for the $10.00 of gain recognized by S, there would likewise be no downward adjustment for the $3.40 tax paid. Thus, X's basis remains $106.60, and because of the $3.40 tax paid by S, $106.60 represents the value of S after the sale of the asset.

** Under my proposal, for reasons of administrative convenience, the deferred taxes are computed with reference to the top corporate rate.

Analysis of the Staff Proposal

The examples above illustrate that the staff proposals apparently are designed to tax both the P group and the X group on the built-in gain attributable to the accelerated depreciation claimed by P, while the Tax-Adjusted Proposal is aimed at taxing that gain only once. It should be apparent that a decision to impose multiple corporate taxes on built-in gain attributable to accelerated depreciation deductions is a significant tax policy issue. In addition, imposition of this multiple corporate tax is the functional equivalent of terminating for these taxpayers--but not others--the deferral that Congress has permitted through accelerated depreciation. Any reduction in the accelerated depreciation incentives is also an important tax and economic policy issue that should be carefully considered. Finally, by keying the parent's basis adjustment to the amount of the subsidiary's tax deduction, the staff proposals hark back to the pre-1966 consolidated return regime and its emphasis on taxable losses--a regime that, as noted, has since been abandoned for an approach that focuses largely on the parent's equity investment in its subsidiary. This rather significant departure from the contemporary view of the consolidated return regulations should at least cause some hesitation in adopting the staff proposals. Each of these considerations point clearly to one conclusion--such significant changes should be considered only in the context of a thorough examination of the corporate tax system.

Proponents of the staff proposals may assert that multiple taxation is appropriate under the current regulatory regime because built-in gain that arises from appreciation in value of assets held by a subsidiary is taxed when that subsidiary is sold. While it is true that the built-in gain attributable to unrealized appreciation is taxed on the sale of a subsidiary, that appreciation will not again be taxed. To illustrate, if S held land instead of a depreciable asset, and the land increased in value from $100.00 to $110.00, when P sold S to the purchaser, X, P would pay tax on its gain of $10.00. As the purchaser will not have to pay tax on the built-in gain, it will not discount the purchase price for any future tax liability and will pay $110.00 for S. Thus, under the current regulations, P will be taxed on its built-in gain of $10.00. X will have a basis of $110.00 in the S stock and should not recognize further gain or loss even if it sells the appreciated asset. Obviously, X will not recognize gain if it resells the S stock for $110.00. Alternatively, if S were to sell the asset and recognize $10.00 of gain, that gain would give rise to a $10.00 upward basis adjustment in the S stock, and X could immediately sell the S stock for $110.00 and produce a $10.00 loss that will offset the $10.00 gain on X's consolidated return. This is certainly the proper economic result for X; it invested $110.00 in S and resells S for $110.00 and the X-S group has no economic gain or loss. Thus, under the present consolidated return scheme P has paid tax on the $10.00 of appreciation, the intermediary, X, which had no economic gain or loss, is not taxed, and the ultimate purchaser of the land takes a cost basis of $110.00 in the land. Thus, there is no multiple taxation of the $10.00 of appreciation, nor should there be in this circumstance.*

The above example illustrates that the staff proposals would tax depreciation and recapture gain more harshly than pure economic gain. This is so because under the staff proposals P would be taxed, and the purchasing X-S group would also be taxed. Whereas in cases involving the taxation of economic gain only the P group is taxed. An important difference between the unrealized appreciation case and the Section 312(k) case is that the depreciation recapture gain does not represent economic income; it is merely a mechanism for offsetting the subsidy embodied in accelerated depreciation. Moreover, the benefit that derives from accelerated depreciation is a benefit that is automatically reversed over time regardless of whether or not the purchaser sells the asset. It is only the failure of the current regulations to adjust for the deferred taxes that permits the tax avoidance the staff proposals attempt to end. Adopting the Tax-Adjusted Proposal will cure that problem and ensure that the depreciation recapture gain is not overtaxed. Adopting the staff proposals will overtax that gain and undermine the benefits Congress has intended to confer through the grant of accelerated depreciation deductions.

Another argument proponents of the staff proposal may advance is that P and the purchaser, X, can avoid the overtaxation by making a Section 338(h)(10) election to treat the stock sale as an asset sale.** Under an (h)(10) election, S would recognize $10.00 of ordinary income that would be taxed to P, and P would pay tax of $3.40. The purchaser would take a $90.00 basis in the depreciable asset.*** This puts the staff proposals in proper perspective. Those proposals would overtax the parties to the transaction so that they might be compelled to make a Section 338(h)(10) election and treat the stock sale as an asset sale.* Thus, the staff proposals should be viewed as a significant movement toward a "mandatory Section 338 election" regime. Indeed, an explicit mandatory section 338 election proposal is contained elsewhere in the staff proposals.** Whether, in light of the repeal of General Utilities, the corporate tax system should adopt a mandatory Section 338 regime or an "elective carryover basis" regime is expected to be one of the centerpieces of the Treasury Subchapter C study. The elective carryover basis regime has received wide support in academic and Treasury studies. Thus, adopting the staff proposals would be taking significant action on a major corporate tax issue without the benefit of the Treasury Subchapter C study, and, more disturbingly, would constitute movement in a direction contrary to that advocated by both academic and Treasury studies.

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* There are instances in which the investment adjustment referred to in the above example would result in no corporate level tax being paid. In those cases the adjustment should not be available, and the Treasury Department has announced that it will amend its regulations to ensure that the investment adjustments are not used to avoid the General Utilities repeal. The example in the text is not such a case because the corporate level gain of $10.00 is fully taxed to P.

** A Section 338 election above would not relieve the tax burden; P would still pay tax on $6.60 of gain and S would pay tax on $10.00 of gain on the Section 338 deemed sale of assets.

*** If an (h)(10) election were made, P would require the purchaser to pay $110.00, since P will be responsible for paying the $3.40 tax, leaving P with $106.60 after-tax. Note that this is the same after-tax amount that P winds up with under the Tax-Adjusted Proposal, while under the staff proposals P would have gain of $6.60 and have after-tax proceeds of less than $106.60. Thus, the staff proposals tax P more harshly than an (h)(10) election.

Finally, proponents of the staff proposals may attempt to find support in Section 301(f). That section was enacted in 1984 to address a different problem, and should not dictate the solution to the Woods Investment problem. The concern at which Section 301(f) is aimed is the treatment of dividend distributions to nonaffiliated corporations and individuals. Because such dividends are entitled to an 80 percent dividends received deduction, and do not, except in limited cases, reduce the basis of the stock held by the recipient in the distributing corporation, they present a unique opportunity for permanent exemption from the corporate tax. Section 301(f) substantially restricts the opportunities for such exemption but the measurement of the dividend received deduction in the nonaffiliated group context is an issue that also should be given serious thought in the context of any overall reform of Subchapter C. That concern, however, does not arise in the consolidated return context because there is no incentive to characterize a distribution as a dividend since any distribution, dividend or otherwise, has essentially the same tax effect in the consolidated return context, i.e., a nontaxable reduction in basis. Therefore, in the consolidated return context, applying Section 301(f) principles only has the effect of terminating the deferral conferred by Congress, and thus such a solution raises the same policy issues discussed earlier in this statement.

Conclusion

The staff proposal to solve the Woods Investment problem would result in overtaxation of depreciation recapture gain and thereby undermine the benefits Congress has legislated through its grant of accelerated depreciation. The staff proposal also would require Congress to make decisions on issues of major significance that should be taken up in the context of the upcoming Treasury Subchapter C study. There is available to Congress a more moderate approach that would eliminate the Woods Investment problem, yet not alter any of the fundamental principles of the existing consolidated return regulations. The approach is the Tax-Adjusted Proposal. Congress should direct Treasury to adopt it promptly.

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* Notwithstanding the potential overtaxation of the depreciation recapture gain, a Section 338(h)(10) election would not be made in many situations where the subsidiary holds other nondepreciable assets with substantial unrealized appreciation.

** See Staff Report at 172, section II.D.9.d.5.

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1455 Pennsylvania Avenue, N.W.
Suite 350
Washington, D.C. 20004 (202) 879-4100

Salomon Brothers Inc

August 6, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

We are writing you about a provision in the recent House Ways and Means Committee Staff publication, Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means that relates to the dividends received deduction. This provision is identified in the document as Option 9.a. which calls for the elimination or restriction of the use of the dividends received deduction. If Option 9.a. became law, it would have a significant adverse impact on utilities and other companies that use the preferred stock market in order to raise funds at the lowest possible cost to the company, and, ultimately, to their customers. In addition, analysts at Salomon with whom we have consulted on this issue indicate that implementation of Option 9.a. would lead to appreciably lower common stock prices for utilities, many of whose shareholders place particular value on the deduction.

For utilities, banks and thrifts, who as major preferred and common stock issuers are large beneficiaries of the deduction, change could not come at a worse time. Utilities are already under pressure from rising energy prices and from regulators. Banks are facing a new equity mandate from the Federal Reserve Board. Thrifts who rely on the preferred market for low-cost money and for regulatory capital are trying to stabilize their business after a decade of turmoil. In short, retaining the present dividends received deduction, and rejecting Option 9.a., is absolutely crucial to the orderly functioning of the preferred markets and is also an important component of electric-utility common-stock prices. As a note, Mr. Chairman, America has 130 investor-owned utilties in operation now with a common stock market value of more than $180 billion. We estimate that implementation of Option 9.a. would cost these firms as much as 10% of their present market value, or about $18 billion. The preferred market, with more than $70 billion in outstanding volume, saw $15.9 billion of new stocks offered in just the last 12 months. This market, too, could suffer a setback of as much as 30% in value if Option 9.a. were to become law.

We are taking the liberty of enclosing with this letter a listing of the American companies that have employed the preferred market in which to raise funds for expansion and other uses in just the last 12 months.

We are also taking the liberty of discussing this matter with members of your staff and other staff conversant with this issue. We have talked with several representatives of publicly-owned utilities, banks and thrifts about the option, all of whom express deep concern at what would happen to their financing if Option 9.a. became law.

Thank you very much for your attention to this matter.

Sincerely,

Ed Chambliss

R. Edward Chambliss
Managing Director
Preferred Stock Department

REC:lc
Enclosure

PREFERRED STOCK ISSUERS
(12 Months Ending 7/31/87)

American Moters
American President Companies
American Savings Bank, FSB
AMFAC
ANAC Holding (Revco Drugs)
Arizona Public Service
Arkansas Power & Light
Arkansas Louisiana Gas Co.
Arvin Industries
Asarco
Baker Hughes
Baltimore Gas & Electric
Bear Stearns Companies
B.F. Goodrich
Boise Cascade
Boston Edison
Buckeye Federal Savings and Loan Association
Cameron Iron Works
CBI Industries
Centrust Savings Bank
Citicorp
Cleveland Electric Illuminating
CNA Financial
Commerce Bancorp
Community National Bank & Trust
Connecticut Light & Power
Crossland Savings, FSB
Crown Central Petroleum
Cummins Engine
The Dime Savings Bank of New York, FSB
Duke Power
Eastern Edison
East River Savings Bank
Empire of America Federal Savings Bank
Equitable Bancorporation
Fedders
Federal Paper Board
First Savings of Arkansas, FA
First Minnesota Federal Savings Bank, FSB
First Interstate Bancorp
First RepublicBank Corp. (Texas)
First Wisconsin Bancorp
Florida Power & Light
Freeport McMoran
Georgia Power
Great American Federal Savings and Loan Association
GTE
Hartford Fire Insurance
Hawaiian Electric
Heller Financial
Home Owners Federal Savings & Loan
Houston Lighting & Power
Illinois Power
Ingersoll-Rand
Inland Steel Industries
International Lease Finance
International Minerals & Chemical
ITEL
James River Corp of Virginia
Landmark Savings Association
M.A. Hanna
Marine Midland Banks, Inc.
Masco Industries
Mississippi Power & Light
Moore McCormick Resources
Newmont Mining
Niagara Mohawk Power
Northern States Power
Northern Trust Company
Norwest Bancorp
Pacificorp
Paine Webber Group
Pennsylvania Power & Light
Phelps Dodge
Philadelphia Electric
Pioneer Savings Bank
Potomac Edison
Potomac Electric Power
Quality Mills
Republic New York Corp
Rochester Gas & Electric
Rowan Companies
Safeway Stores Holdings
San Diego Gas & Electric

Seagull Energy
Seamen's Bank for Savings, FSB
Security Pacific Corporation
Signet Banking
Southern Union Company
Southmark
Southwestern Electric Power
Talman Home Federal Savings and Loan Association of Illinois
Texas Air
Texas Instruments
Texas Utilities Electric
Todd Shipyards
Tuscan Electric Power
UGI
Union Bancorp
United Jersey Banks
United Savings Association of Texas
United Savings of America
USF&G
USX Corp (United States Steel)
Virginia Electric & Power
Warner Communications
Western Massachusetts Electirc
Weyerhaeuser

Wickes Companies, Inc.
Corporate Offices

SANFORD C. SIGOLOFF
Chairman of The Board,
Chief Executive Officer
and President

July 30, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski:

I am writing to express Wickes Companies' strong opposition to the proposals currently being considered by the House Ways and Means Committee to limit or prohibit high yield bond interest deductions. As set forth below, utilization of high yield bonds has enabled Wickes Companies, Inc. to successfully re-generate itself and to save approximately 30,000 jobs, many of which are located in your state and some, undoubtedly, in your district.

Wickes Companies, Inc. is a diversified company with sales of approximately $6 billion per year and operations in such diverse areas as building materials and home improvement, wallcoverings and furnishings, apparel and hosiery, and automotive and industrial products. Through its various businesses, Wickes currently has approximately 75,000 employees in all 50 states and in many foreign countries as well.

Were it not for the availability of high yield bond financing, it is quite likely Wickes would not be in existence today, but rather would have been liquidated in the aftermath of its 1982 Chapter 11 filing. However, as a result of the availability of high yield bond financing, Wickes has been able to emerge successfully from Chapter 11 proceedings and in the three years since that date, made three major acquisitions (all "friendly" as opposed to via a

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3340 Ocean Park Boulevard, Suite 2000 • P.O. Box 4056 • Santa Monica, California 90405 • (213) 452-0161

hostile takeover) utilizing high yield bonds for much of the acquisition financing.

Were interest deductibility of high yield bonds restricted, it is quite unlikely that Wickes would have been able to avail itself of this financing, in which case its ability to make these needed acquisitions to redirect itself would have been seriously impaired. Aside from the pragmatic impact of these proposals on companies such as Wickes, it does not seem appropriate, as a policy matter, for the federal government through tax legislation to decide which acquisitions or debt to equity ratios are "good" as opposed to "bad". What makes sense for a company such as Wickes may not make sense for another company. However, that decision should be made by the management and boards of directors of each company and not by Congress.

I recognize that there is a strong legislative ground swell to take action to impede "hostile takeovers" and that to some extent the proposal relative to tax deductibility of interest is part of this effort as well as being a revenue enhancement measure. However, I sincerely believe that adoption of such a proposal (especially one which covers all acquisitions) would be very disadvantageous to American industry and in the long run will not result in revenue enhancement but rather revenue loss caused by the inability of many companies to survive and grow in the face of stronger, more entrenched domestic and foreign competition.

I urge you not to support any proposal to limit the interest expense on high yield bonds.

Thank you for your consideration.

Very truly yours,

Sanford C. Sigoloff

Commonwealth Mortgage Company of America, L.P.

Commonwealth Mortgage
Corporation of America,
General Partner

July 20, 1987

Mr. Robert Leonard
Chief Counsel House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

We have been informed that the House Ways and Means Committee staff is currently considering several proposals other than taxing publicly traded limited partnerships as corporations. We would like to take the opportunity to address one of those proposals with you, since any action taken regarding the proposal would have serious consequences for our company.

We are aware that the staff is considering the imposition of a debt limit on publicly traded limited partnerships as it relates to tax matters. We have also been informed that the staff is aware of limited problems that this would cause in terms of reducing a PTLP's flexibility as an operating entity and additionally the unequal treatment by application of a debt limit to PTLP's and not to corporations. One significant reason for not imposing a debt limit on PTLP's relates to the fact that many companies, like mortgage bankers, use debt not as a capital raising tool, but rather use it in the normal course of everyday operations. Mortgage bankers use debt on a daily basis to finance the loans that are held in inventory between the time the loan is originated and the time it is sold into the secondary market. Without the debt financing associated with the inventory holding process and normal working capital requirements, we could not operate as an ongoing entity, and continue to function in our present form. Any type of debt limitation would have a severe impact on our ability to operate as an ongoing concern, thus we are deeply concerned that any such proposal is being considered.

We ask that you consider this issue and its potentially negative ramifications very carefully. Should you wish to have further information about our position, I can be reached at (713) 683-4922.

Sincerely,

Dwayne Whitehead

R. Dwayne Whitehead
**Executive Vice President
and Treasurer**

2223 West Loop South, Houston, Texas 77027 (713) 439-7200 NYSE: CMA

DEPRECIATION PROVISIONS

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AMERITECH
[illegible]

GEORGE A. VALAIKA
President

P.O. Box 95113
Schaumburg, Illinois 60195
312/934-9535

COMMITTEE ON
RECEIVED
JUL 23 1987
WAYS AND MEANS

July 16, 1987

Honorable Dan Rostenkowski
2111 Rayburn House Office Building
House of Representatives
Washington, D C.   20515

Dear Congressman Rostenkowski:

It has come to my attention that, as part of the Budget Reconciliation Process, Congress is considering a proposal which would impose a depreciation system subjecting leased equipment to a longer depreciation period than if it were purchased.

At a time when the ink is barely dry on the last tax reform bill, I find this proposed depreciation change to be most distressing news. Congressman Rostenkowski, give the 1986 Tax Reform Act a chance to work! Congress recognized the importance of retaining an accelerated depreciation system as a trade off when ITC was repealed. Changing the depreciation rules could be very harmful to capital formation at a time when increased productivity and competitiveness is of great importance to the U.S. economy.

One of the stated objectives of the Tax Reform Act of 1986 was tax neutrality. That is, a tax system in which business decisions are made based upon the economics of the transaction, and not predominantly for tax reasons. The proposal which Congress is considering would result in a substantial increase in the cost of equipment to an enterprise if it leases rather than buys. Why remove the incentive to invest in some equipment simply based on the means of acquisition? This type of depreciation system does not embrace the stated goal of tax neutrality.

Many types of business and agricultural entities rely on leasing as a means of financing their equipment acquisitions. The 1986 Tax Reform Act repealed the Investment Tax Credit and lengthened the cost recovery period for most assets - which increased the cost of equipment to these entities. Another major increase would be difficult to absorb.

Thank you, Congressman Rostenkowski, for letting me share a few of my thoughts with you regarding the proposed depreciation changes, and I encourage you to retain the present system of depreciation for leased equipment.

Sincerely,

CENTRAL CORPORATION

P.O. Box 4928
Monroe, Louisiana 71211

August 7, 1987

The Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn
Washington, D.C. 20515

Dear Mr. Rostenkowski:

The June 25, 1987 Joint Committee staff list of possible revenue raisers includes a provision to deny the amortization or depreciation deductions for intangible assets representing the value of an existing customer base or market share, or alternatively, to permit this deduction over a prescribed period of substantial duration. We feel this provision is unreasonable and urge your support against it.

This proposal would deny or severely limit a tax deduction for assets that are an integral part of a trade or business. The Internal Revenue Code has recognized a reasonable deduction for the exhaustion, wear, and tear of property used in a trade of business since 1954. The taxpayer has the burden of proof in establishing the intangible asset has the criteria necessary for an amortization deduction. This provision would eliminate a long established provision of the Internal Revenue Code and would deny taxpayers the opportunity to carry their burden of proof.

I understand there are several cases in litigation with regard to the amortization of the core deposit intangible of financial institutions. This proposal would legislatively decide these existing court cases to the detriment of the litigating taxpayers. Therefore, this provision would not only be unreasonable but also unjust to those taxpayers currently challenging the IRS position.

We urge you to oppose the provision denying amortization or depreciation of an intangible asset which is an integral but wasting asset of a trade or business.

Very truly yours,

Ed Pennington

Ed Pennington
Sr. Vice President and
Chief Financial Officer

Capital Markets Group
Heller Financial, Inc.
200 North LaSalle Street
Chicago, Illinois 60601
312 621 7812

Heller Financial

Christopher L. Gillock
Vice President/Manager
Syndications

July 21, 1987

Honorable Dan Rostenkowski
2111 Rayburn House Office Building
House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

Among the possible options to increase revenue, a proposal has been described which would impose a depreciation system that would discriminate between how business and agriculture decide to acquire equipment - purchase or lease. If an item of equipment were leased, it would be subject to a longer depreciation period than if it were bought. This would result in a substantial increase in the cost of equipment to an enterprise if it leases rather than buys.

The Revenue Options Proposal - For purposes of ACRS and all cases to which the alternative depreciation system applies, determine the recovery period of property by reference to the longer of 125% of a lease (or other contract) term. Under modified ACRS, property is depreciated in a category determined by ADR life. Under the proposal, leased property would be depreciated in a category determined by 125% of lease term or ADR life, whichever is longer, rather than just ADR life.

Result For Equipment Cost - A business or agricultural entity that leases equipment, would see the equipment cost increase as much as 20% compared to another similar entity that acquired the equipment through purchase. This unlevels the competitive playing field between entities simply based on how they acquire their equipment. It would discriminate against an entity that cannot afford to purchase equipment.

The increased cost of equipment for the large number of business and agricultural entities that rely on leasing, would force delays or cancellations in plans to invest in more productive assets.

Honorable Dan Rostenkowski
July 21, 1987
Page -2-

The 1986 Tax Reform Act repealed the ITC and lengthened the cost recovery period for most assets. The proposal to treat leased assets differently would be a serious "Anti-Capital Formation" provision following closely on the 1986 changes. From Pre-TRA to Post-TRA, the annualized cost of equipment increased 14.6%. Another major increase would be difficult to absorb.

Please consider the following points:

* The regular Tax Depreciation System, modified ACRS, is by definition an "incentive system". Why remove "incentives" to invest? Why remove "incentives" to invest in some equipment simply based on the means of acquisition?

* The economic life of an asset is the same whether it is owned or leased by the user. The provision is anti-competitive and anti-market in that it differentiates equipment depreciation based on method of acquisition.

* Give the 1986 TRA a chance to work! Congress recognized the importance of retaining an incented or accelerated depreciation system as a trade off when ITC was repealed. Changing depreciation could be very harmful to capital formation at a time when increased productivity and competitiveness is of great importance to the U.S. economy.

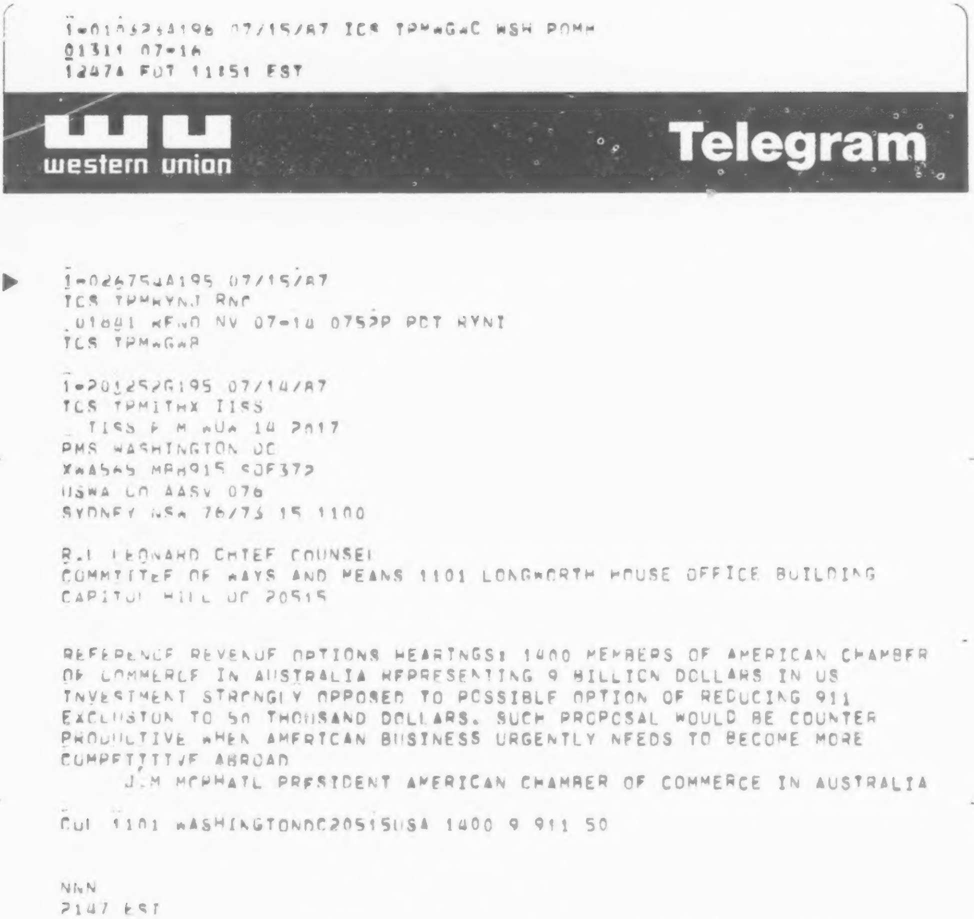
* Many types of business and agricultural entities rely on leasing (8 out of 10 companies utilize leasing to acquire all or part of their equipment). Capital intensive entities are least able to absorb another increase in the cost of equipment. This is of particular concern to those of us in Illinois that have watched the state's manufacturers shrink, suffer or move out of state in the past several years.

Please do all you can to stop this discriminatory proposal.

Best Regards,

Christopher L. Gillock

CLG/lv



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R.I LEONARD CHIEF COUNSEL
COMMITTEE OF WAYS AND MEANS 1101 LONGWORTH HOUSE OFFICE BUILDING
CAPITOL HILL DC 20515

REFERENCE REVENUE OPTIONS HEARINGS: 1400 MEMBERS OF AMERICAN CHAMBER OF COMMERCE IN AUSTRALIA REPRESENTING 9 BILLION DOLLARS IN US INVESTMENT STRONGLY OPPOSED TO POSSIBLE OPTION OF REDUCING 911 EXCLUSION TO 50 THOUSAND DOLLARS. SUCH PROPOSAL WOULD BE COUNTER PRODUCTIVE WHEN AMERICAN BUSINESS URGENTLY NEEDS TO BECOME MORE COMPETITIVE ABROAD

J.M MCPHAIL PRESIDENT AMERICAN CHAMBER OF COMMERCE IN AUSTRALIA

COL 1101 WASHINGTONDC20515USA 1400 9 911 50

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2147 EST

The following organizations submitted comments similar to the attached:

The American Business Council of Pakistan, Mr. Rudolph J. Gebert, President
The American Chamber of Commerce in Hong Kong, Mr. Paul Cheng, President
The American Chamber of Commerce in Indonesia, Mr. Nick P. Petroff, President
The American Chamber of Commerce in Japan, Mr. Joseph A. Grimes, Jr., President
The American Business Council of Malaysia, Mr. Donald Jerome, President
The American Chamber of Commerce in Okinawa, Mr. Robert W. Patterson, President
The American Chamber of Commerce in the Philippines, Mr. George W. Drysdale, President
The American Chamber of Commerce in Taiwan, Mr. Herbert Gale Peabody, Executive Director
The American Chamber of Commerce in Korea, Mr. Thomas M. Brown, President

APCAC

ASIA - PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE

Chairman: Harvey Goldstein c/o Resources Management, International, Inc. Jalan Sultan Hasanuddin 28, Kebayoran Baru
Jakarta Selatan, Indonesia Phone: 734588 Fax: 734566 Telex: 47129 RMI JKT Cable: RESOURCES JKT

Executive Director: Ann R. Wise c/o Honeywell Inc. Nagai International Building 2-12-19 Shibuya, Shibuya-ku, Tokyo 150,
Japan, Phone: (03) 409-1611 Fax: (03) 407-6567 Telex: J22902 Cable: Yamatakeco

September 1, 1987

Mr. Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways and Means
1101 Longworth House Office Building
Washington, DC 20515

Dear Mr. Leonard:

The Asia-Pacific Council of American Chambers of Commerce (APCAC) is comprised of about 35,000 business people, representing over 6,500 business entities. The APCAC membership manages trade volumes in excess of US$180 billion and investments of over US$40 billion. We strongly believe that the presence of U.S. citizens working overseas is an essential and vital factor in promoting market outlets for U.S. exports of goods and services. Without these business people abroad, the U.S. trade deficit would be even more detrimental to our economy.

The proposed elimination or reduction of the provision of Section 911 of the Internal Revenue Code can only have a negative impact on our position in the world market. Without tax exclusions on foreign earned income (currently set at US$70,000), the tax cost of employing American citizens can curtail or thwart companies from being more competitive with local firms or other foreign entities whose nationals are not subject to taxation on their foreign earned income (all are subject to local country taxes). U.S. companies have to pay U.S. citizens more for the inconvenience of living overseas in the lesser developed countries of the world and then have to gross up their salaries for the additional tax bite of the IRS.

Therefore, APCAC strongly opposes the option to reduce the foreign earned income exclusion to US$50,000 or any other figure, based on the following facts:

1. U.S. exports are greater when U.S. individuals, who are most familiar with U.S. made products and services, work abroad;

2. The reduction of the exclusion to US$50,000 would make it more difficult to find U.S. citizens to work overseas;

3. The recent Tax Reform has already reduced the maximum foreign earned income exclusion from US$80,000 to US$70,000 after public debate, hours of Congressional hearings and testimonies and extensive studies on this issue;

4. A change of Section 911 after less than one year will add greatly to the uncertainty and risks faced by U.S. companies

Members: American Chambers of Commerce in Australia, Guam, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Okinawa, Pakistan, Philippines, Republic of China, Saipan, Singapore, Thailand
Associate Members: Anchorage Chamber of Commerce, Chamber of Commerce in Hawaii, Indo-American Chamber of Commerce

attempting to do business in foreign markets, and will discourage many U.S. firms that could and should be selling U.S. goods and services abroad;

5. At a time when U.S. trade deficits are consistently getting larger, no significant changes should be made in U.S. tax law that could adversely affect U.S. export performance, without thorough policy review and Congressional hearings on the specific change;
6. The reduction of the exclusion will increase the tax cost of having U.S. citizens abroad for U.S. companies, therefore placing the U.S. companies at a competitive disadvantage with our foreign competitors; and
7. The reduction of the maximum foreign income exclusion would be totally against the current policy of Congress and the U.S. Administration to improve the overall competitiveness of the United States.

In addition to the above facts, we would point out that the U.S. is the only industrialized nation of the world which taxes its citizens resident abroad on their foreign earned income. Also, there have been at least 10 changes in this particular tax section in the past 12 years, which makes corporate and individual tax planning frustrating and unnecessarily complicated.

For these reasons, APCAC opposes any proposed elimination or reduction of the provisions of Section 911 of the Internal Revenue Code. We appreciate your consideration of the views of Americans who live and work abroad.

Sincerely,

Harvey Goldstein
Chairman

Michael R. Dove (C)
USAID/Islamabad
Agency for International Development
Washington, D.C. 20523

The Honorable Dan Rostenkowski
Joint Committee on Taxation
1015 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski, 16 August 1987

I understand that your committee is considering reducing or eliminating the Section 911 overseas tax exemption. I am currently working in Pakistan as an anthropologist, on a forestry project being carried out jointly by our government and the government of Pakistan. Due to the isolation of this posting, and the lack of access to the facilities normally provided to scientists working in the U.S.A., I have many expenses that I would not otherwise have. To mention just two, the library and computer that I have used here for the past two years are my own, and they represent personal expenditures of $5,000 and $15,000, respectively.

The work that we are doing in countries like Pakistan is crucial for the development and indeed freedom of people in this part of the world, as well as elsewhere. Please do not make it any more difficult than it already is by handicapping us financially.

If you would like any more information about our situation here, please do not hesitate to write.

Sincerely,

Michael R. Dove

Michael R. Dove, Ph.D.
Project Anthropologist

WRITTEN STATEMENT

Submitted by:

THE EXPORT SOURCE COALITION

WAYS AND MEANS COMMITTEE HEARINGS ON REVENUE RAISING OPTIONS

This statement is submitted by the Export Source Rule Coalition, a coalition of forty companies and associations interested in preserving current law taxation of U.S. export operations. A list of Coalition members is attached.

The Coalition wishes specifically to address the proposal included in the June 25 Description of Possible Options pamphlet prepared by the Joint Committee on Taxation. That pamphlet described (at pp. 206-208) a 1985 Treasury Department tax reform proposal that would modify the current source rules as they apply to export taxation. This proposal was rejected last year because of Congress' overriding concern that tax reform not adversely affect U.S. exporters. It is the Coalition's view that these concerns are equally strong in the context of revenue raising legislation. We believe that the rejected Treasury proposal should not again be considered by the Congress for the reasons discussed below.

Present Law Source Rule

Since the 1954 Code was enacted, the law has provided that income from the sale of inventory property purchased by the taxpayer is sourced (*i.e.*, treated as arising) in the jurisdiction where the sale takes place (essentially where title to the goods pass from seller to buyer). Thus, U.S. exporters which sell purchased inventory goods to foreign buyers outside the United States obtain foreign source income from those sales.

In the case of inventoried goods which are manufactured in the United States by the exporting taxpayer before their sale abroad, income from both the manufacture and sale of goods is generated. In such cases present law permits taxpayers to apply a mechanical apportionment formula, which in most cases treats approximately one-half of the combined income to be treated as manufacturing income and attributed to U.S. sources and the other one-half as selling income attributed to foreign sources. Alternatively, taxpayers may elect to use an independent factory price to determine the amount of U.S. and foreign source income if such a price can be established. However, in all or virtually all cases taxpayers in fact apply the mechanical apportionment formula. The rule is simple to apply and recognizes the principle that sales outside the United States should give rise to a reasonable amount of foreign source income.

For taxpayers which export their products through Foreign Sales Corporations (FSCs), however, the maximum amount of foreign source income which can be earned is substantially reduced. Under the FSC legislation as enacted in 1984, companies exporting through a FSC can only obtain foreign source income equal to a maximum 25 percent of their total combined taxable income. Notwithstanding this limitation, U.S. exporters generally obtain significant foreign source income with respect to their U.S. exports.

Joint Committee Pamphlet Possible Proposal

The Joint Committee on Taxation Possible Options pamphlet includes the 1985 Treasury proposal, which would generally eliminate the rules establishing foreign source income from the sale of inventory property outside the United States. That proposal would replace current law it with a rule requiring that the income be sourced in the country of the seller's residence except when the taxpayer has a "fixed base" in a foreign country through which its sales are made. For U.S. exporters, the proposal would mean in virtually all cases that no foreign source income would be obtained from the sale of U.S. exports. The proposal would thus arbitrarily eliminate any foreign source income without regard to the amount of foreign activity which has been undertaken in all cases where the taxpayer does not have a specific, foreign fixed place of business.

Economic Policy Implications of the Treasury Proposal

While the Export Source Coalition believes that the 1985 Treasury proposal constitutes ill-founded tax policy, the primary reason for the Coalition's opposition is the proposal's economic impact on U.S. exports.

As the Congress is well aware, since 1981 the United States has experienced a marked decline in its export performance. Exports have grown only slightly the last six years, while imports have expanded considerably. In fact, the U.S. share of world exports of manufactured goods has declined steadily since 1981. The result is that by 1985 only six industrial sectors in the United States still enjoy positive trade balances. Even with the devaluation of the U.S. dollar, the U.S. merchandise trade deficit is likely to remain at about $150 billion in 1987 and perhaps improve to $130 billion in 1988.* Trade deficits of this magnitude cannot be overcome easily; they require major policy actions. If the U.S. is to overcome its current trade deficit without resorting to protectionist policies, the U.S. government must focus on policies that expand exports rather than contract import.

Tax policy should be an important part of overall economic policies designed to encourage exports. U.S. Treasury Department analyses of Domestic International Sales Corporations (DISC) legislation indicate that tax incentives for exports can create a substantial private sector response. The 1981 DISC Report, for example, includes a Treasury estimate that the DISC provisions directly increased U.S. exports in 1980 by between $7 billion to $11 billion. The present law source rule acts to encourage U.S. exports in the same way that the former DISC (and current FSC) provisions do. The Treasury proposal to eliminate the source rule would thus serve as a substantial disincentive for U.S. exporters.

The above analysis was sufficiently persuasive that the Congress in the 1986 Tax Reform Act rejected Treasury's proposal. The Finance Committee stated the rationale for its decision to reject the proposal as:

> The Committee is concerned that the repeal of the title passage rule for sales of inventoried properties would

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* See, for example, Salomon Brothers, Prospects for Financial Markets in 1987, New York, December 16, 1986, p. 32.

> create difficulties for U.S. businesses to compete in international commerce. Moreover, the Committee recognizes that with the substantial trade deficits of the United States, it does not want to impose any obstacles on U.S. businesses that may exacerbate the problems of U.S. competitiveness abroad.

Senate Finance Committee Report, p.329.

The Conference agreement followed the Senate bill and also rejected the Treasury proposal. However, it did require that the Treasury Department study the effect of the current law source rule "in light of Congressional trade concerns" and report back to the Ways and Means and Senate Finance Committees by September 30, 1987. See Conference Report, p.II-596. The Treasury Report is now in preparation.

Given this background, it would be clearly inappropriate to reconsider the rejected Treasury proposal as part of any revenue raising tax legislation. The U.S. trade deficit is as big a problem now as it was in 1985 and 1986, when Congress rejected the proposal specifically because of its impact on exports. Moreover, Treasury currently has a study of the trade impact of the source rule provision which will not be available for a few months at least.

Congress is currently considering trade legislation which would adopt a number of measures to expand exports and require fair treatment in international trade relations. It would be contrary to the goals of that legislation, as well as the principles established in tax reform just last year, to eliminate the source rule for U.S. exporters.

We urge that the Treasury proposal not be reconsidered.

MEMBERS OF THE EXPORT SOURCE COALITION

Abbott Laboratories
Allied-Signal Inc.
Aluminum Company of America
American Electronics Association
Analog Devices Inc.
Apple Computer Corporation
Caterpillar Inc.
Champion International Corporation
Chemical Manufacturers Association
Computer and Business Equipment Manufacturers Association
Control Data Corporation
Data General Corporation
Digital Equipment Corporation
Dow-Corning Corporation
Dresser Industries
Electronic Industry Association
Emergency Committee for American Trade
FMC Corporation
Ford Motor Company
General Motors
Hewlett-Packard Company
Intel Corporation
International Paper Company
Kimberly-Clark
Monsanto Company
National Association of Manufacturers
National Foreign Trade Council, Inc.
NCR Corporation
Perkin Elmer Corporation
Premark International
Schering-Plough Corporation
Scientific Apparatus Makers Association
Semiconductor Industry Association
Tektronix, Inc.
Unisys Corporation
U.S. Chamber of Commerce
Varian Associates
Weyerhaeuser Company
Xerox Corporation

LAW ENGINEERING

GEOTECHNICAL, ENVIRONMENTAL
& CONSTRUCTION MATERIALS
CONSULTANTS

A. J. GLENN, III, P.E.
VICE CHAIRMAN

August 12, 1987

Mr. Dan Rostenkowski
Chairman, House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski:

We understand that the House Ways and Means Committee is once again considering a reduction in the maximum foreign income exclusion. Commonly referred to as Section 911, it currently allows a United States citizen who lives and works abroad to exclude up to $70,000 of his/her income from United States federal taxes. Law Engineering, Inc., and Law International, Inc. (a wholly-owned subsidiary of Law Engineering, Inc.) has carried out projects in more than fifteen countries. We would like to offer some information that places this issue in a practical perspective.

First, in view of the critical trade imbalance and deficit sustained by the United States, it is imperative that our laws support the private sector in its efforts to compete for international business on terms that are equitable with those of our foreign competitors. It is the general practice of those competitors to exempt their citizens from any income taxes on income earned abroad. This enables them to attract experienced, highly-qualified personnel to overseas projects. United States companies need to be able to do the same to compete effectively.

Secondly, United States employees who work in developing countries face expenses and conditions not encountered by their countrymen who work in the United States. These normally include schooling costs of several thousand dollars per year for each child. Further, they may face health conditions more severe than in the United States, and medical treatment and facilities considerably below United States standards. There are thus an array of expenses beyond those normally found in the United States.

Third, when a United States company wins an internationally competed contract for work abroad, it returns money to the United States that would otherwise go to another country. This directly contributes to reducing the United States deficit.

Finally, in our area of work, engineering consulting, it is imperative that the United States remain competitive to win the early studies and design contracts that can lead to sales of equipment and construction activities that have a value many times that of the engineering work alone. In view of these facts, we believe the arguments favoring further reductions in foreign excluded income are specious, and we urge you to maintain the Section 911 floor for excluded income at its present level of $70,000.

Very truly yours,

AJGlenn

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NATIONAL CONSTRUCTORS ASSOCIATION

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STATEMENT FOR THE RECORD

OF

MARK G. CHALPIN

VICE PRESIDENT, GOVERNMENT AND INTERNATIONAL AFFAIRS

NATIONAL CONSTRUCTORS ASSOCIATION

ON

THE PROPOSAL TO INCREASE REVENUES

BY REDUCING THE FOREIGN EARNED INCOME EXCLUSION

COMMITTEE ON WAYS AND MEANS

THE U.S. HOUSE OF REPRESENTATIVES

JULY 15, 1987

Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

On behalf of the member companies of the National Constructors Association (NCA), I wish to state for the record our concern about the proposal to increase revenues by reducing the foreign earned income exclusion as codified in Code Section 911 from $70,000 to $50,000. We believe that this proposal would adversely affect the ability of NCA member companies as well as all U.S. industry to compete in international markets.

The NCA believes that section 911 is a trade issue, not a tax issue. No other government (except Switzerland) taxes its nationals working abroad. Our competitors realize that it makes good business sense to encourage their nationals to work abroad in order to remain competitive in the international marketplace. The U.S. taxation of foreign earned income therefore acts as a tariff imposed by our government on the export of U.S. goods and services.

The NCA is made up of some of the nation's largest firms engaged in the design and construction of major commercial, industrial and process facilities worldwide. Because of the prominent role many of these firms have played in the international design-construction market, NCA has traditionally taken an interest in legislative and regulatory issues which affect its members' ability to do business overseas. NCA member companies, in fact, formed the nucleus of and founded the U.S. and Overseas Tax Fairness Committee which played a prominent role in making Congress aware some years ago of the need for more favorable tax treatment of the foreign-earned income of U.S. expatriates.

In the early 1950's, the U.S. introduced a tax on U.S. nationals working abroad to close a loophole that allowed a few, very highly paid individuals (mainly entertainers) to escape U.S. income taxes by residing abroad. Arguably, these individuals did little to promote U.S. exports, and at that time the U.S. economy was resonably immune to foreign competition.

Today, the situation has changed. Our trade deficit is staggering, we have become the world's largest debtor nation, and the U.S. economy faces stiff international competion. Since products do not sell themselves, U.S. industry needs more American workers abroad to generate U.S. exports. Indeed, Americans abroad are very productive in this regard. For example, the latest data available on U.S. workers abroad indicates that, on average, each American generates $721,000 in U.S. exports.

Unfortunately, the proposal before your Committee would significantly increase the tax burden of expatriate Americans involved in the export of U.S. goods and services. Their companies will either have to pay more to keep them abroad or replace them with foreigners. In either case, America is put at a competitive disadvantage. If Congress increases America's costs abroad, it will surely injure our economy by reducing exports and the number of Americans abroad.

On behalf of the NCA, I urge you to consider carefully the logic of the proposal to reduce the foreign earned income exclusion that is before your Committee.

Sincerely,

Mark Chalpin

Mark G. Chalpin
Vice President, Government and
International Affairs

H. Eugene Ostmark
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~~HONDURAS, CENTRAL AMERICA~~
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PRESENT ADDRESS:
USAID - Islamabad
Washington, D.C. 20523

24 August, 1987.

The Honorable Dan Rostenkowski
Joint Committee on Taxation
1015 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski:

I am an American who has lived overseas for the past 25 years. Naturally, I have lived through all sorts of USA income tax plans.

When the Government took away our tax exemption back in 1978 (or thereabouts) there was a mass exodus of Americans from overseas jobs. Within two years the U.S. Government had established a Bureau to promote the export of American Products.

Besides giving preference to American products, we long time residents of foreign countries represent the best ambassadors that the United States could have overseas. Far more so, unfortunately, than career Foreign Service personnel.

Other foreign governments recognize the fact that their citizens living abroad are unable to avail themselves of the advantages of their tax dollars. For example, the United States has federal subsidized highways, education, FBI protection and many other benefits to USA citizens unavailable to Americans living abroad. These countries do not impose taxes on their expatriates.

In closing, I question the figure of 0.1 billion dollars in additional taxes gained by lowering our tax exemption. Foreign taxes may be deducted from USA taxes and these almost always exceed USA taxes, especially at upper income levels.

Sincerely,

H. Eugene Ostmark

HEO/kn

INSURANCE AND ANNUITIES

STATEMENT
OF THE
BLUE CROSS AND BLUE SHIELD ASSOCIATION

The Blue Cross and Blue Shield Association is pleased to submit the following statement on behalf of the Association and its 77 member Plans to the House Committee on Ways and Means to be included in the official record of hearings on possible 1987 revenue options.

Blue Cross and Blue Shield Plans provide protection against the high cost of medical care to nearly 80 million Americans. Plans operate in each state and are locally-controlled non-profit health care service organizations. For the fifty years preceeding the Tax Reform Act (TRA) of 1986 these Plans were exempt from federal tax under the provisions of Section 501(c)(4) of the Internal Revenue Code. Section 1012 of the TRA provided that Plans would become taxable as of January 1, 1987, but would have the benefit of certain tax provisions as detailed in the statute. The rules applicable to Blue Cross and Blue Shield Plans were established on the basis that Plans perform valuable community services that should be preserved.

Repeal of the treatment afforded Blue Cross and Blue Shield Plans involving the way additions to reserves are taxed is one of several items recently discussed in a document prepared by the Joint Committee on Taxation listing options to raise revenue. While we understand that hundreds of options are being considered and that the Committee faces many difficult choices in developing an equitable package of revenue decisions, we would urge the Committee not to change the tax treatment of Blue Cross and Blue Shield Plans.

Blue Cross and Blue Shield Plan Practices

Blue Cross and Blue Shield Plans have a strong obligation to their communities, as well as their subscribers, and discharge those obligations in ways that benefit those they serve. The business practices of Plans clearly demonstrate the corporate philosophy embodied in these organizations.

Plans return a higher percentage of premium payments to subscribers in the form of benefits than do our competitors. The most vulnerable purchaser in the health insurance market is the individual who must purchase coverage for themselves and his/her family without the benefit of being part of an organized group. Plans perform a major community service for these consumers by returning, on average, 89 cents of every dollar collected in individual premiums as payment for health care services. By way of comparison, commercial companies return only 54 cents on the dollar in benefit payments. With respect to Medicare supplemental coverage, Plans pay out 90 percent, on average, of all premium dollars collected, dramatically exceeding the federally mandated minimum of only 60 percent.

All Blue Cross and Blue Shield Plans offer individual coverage. Eleven million of our nearly 80 million subscribers are individuals who do not belong to groups and who represent, by definition, much higher risks than group members. It is precisely because of the higher risks involved in covering individuals that in recent years has caused a number of major insurance companies to simply stop offering individual coverage. This segment of the market is extremely volatile and suffers from a high degree of adverse selection, the phenomena that occurs when only those who have a need for health care services choose to purchase coverage rather than a mix of healthy and sick individuals.

In addition to the fact that many commercial insurers are reducing their stake in the individual market, it is important to note that newer forms of health coverage such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs) often offer very little individual coverage, and that the rapidly growing number of employer self-funded health benefit programs are not in the business of offering individual (nongroup) coverage.

Blue Cross and Blue Shield Plans guarantee individuals who leave a group for any reason -- and their family members -- the right to convert to individual coverage without waiting periods and without exclusions for pre-existing medical conditions. This benefit helps protect laid-off workers and their families from major financial losses. Importantly, the right to automatic conversion applies to divorced spouses, widows, widowers and families of covered members. Congress recognized the value of such a benefit when under COBRA it mandated that employers allow terminated workers to continue in their group benefits, and many states have required commercial insurers to offer coversion benefits. Blue Cross and Blue Shield conversion benefits will continue to be available even as the continuation coverage offer by employers expires. Blue Cross and Blue Shield Plans have always offered this guarantee voluntarily despite the fact that most Plans lose money on conversion policies because of the extremely high benefit payouts, about 97 cents of every dollar, in these policies.

Plans do not base the price of individual coverage on a person's medical condition. This is of significant value for those who -- because of a pre-existing medical problem -- could not obtain affordable health care coverage from another company.

Even in today's highly competitive market, our practices with respect to individual coverage remain substantially more liberal than commercial insurers. For example, Plans representing over one half of our subscribers offer coverage regardless of medical condition. In those Plans, subscribers continue to be accepted regardless of their medical history. This means that these Plans cover individuals such as those diagnosed with AIDS whom they know, in advance, will incur inordinately high medical expenses. Further, all Plans accept subscribers regardless of their income. A common practice in the commercial industry is to require that all applicants be employed.

Blue Cross and Blue Shield Plans continue to provide small group coverage that many commercial insurers have concluded is an undesirable high cost/high risk business that they will no longer provide. Plans have always remained in the small group market despite economic downturns that have caused other companies to leave this market, perhaps to return in better times. Further, nearly all Blue Cross and Blue Shield Plans offer group coverage to small businesses with as few as ten employees with no restrictions because of medical problems. Our commitment to the small group market is strong and we continue to seek ways to make it possible for more small businesses to offer coverage to their employees.

The bottom line of all these practices is that Blue Cross and Blue Shield Plans accept individuals and small groups who are not accepted by or who could not afford quality coverage from any other provider of health care protection, and they provide that coverage in good times and bad. As an inevitable result, Plans end up with a disproportionate share of high risk, high cost subscribers.

That we can survive at all in the highly competitive health insurance marketplace while covering so many high risks is a tribute to a very delicate balance developed over 50 years of operation. Our aggressive pursuit of cost containment is one key to the Plans' ability to compete while carrying the costs of high risk subscribers. We negotiate rates with doctors, hospitals and other providers to establish the lowest possible costs for our subscribers. Until last year, the exemption from federal taxation was a major part of that delicate balance between income and expenses.

Tax Reform Act of 1986

When Congress reviewed the tax status of many non-profit organizations as part of last year's major overhaul of the federal tax code, Blue Cross and Blue Shield Plan practices were studied extensively. Congress was persuaded that some competitive advantage might exist for tax-exempt Plans in today's market where they compete with commercial for-profit companies, but determined that some recognition should be given for the valuable, community-based practices of Blue Cross and Blue Shield Plans. The provisions of Section 1012 of the Tax Reform Act of 1986 were the resulting compromise.

The tax treatment of reserves of Blue Cross and Blue Shield Plans is the cornerstone of the agreement reached in the tax reform debate. This special deduction provides tax relief, but applies only when Plan reserve levels fall below that which is considered adequate to protect against unexpected events, generally an amount sufficient to pay claims for three months. Any additions to reserves that exceed the three month level will be taxed at the regular corporate income tax rate. It is important to note that Plans under the three month reserve level are subject to the alternative minimum tax. Therefore, while the tax liability faced by a Plan can be reduced by this special provision, it cannot be eliminated.

A key element of the reserve treatment was the decision by the Congress to make the special treatment contingent on each Plan continuing to provide the same level of community services they provided on August 16, 1986. Any Plan that makes a "material change in operations" loses the ability to rebuild reserves to a fully stable level before it must begin to pay regular corporate income tax. This means that the availability of small group and individual coverage, and the special programs such as continuation of coverage through conversion privileges will continue to be available in each community. Congress, in effect, created an incentive to preserve the valuable practices of Blue Cross and Blue Shield Plans in the midst of an increasingly competitive marketplace.

1987 Revenue Options

The provisions agreed to in last year's tax reform bill for the Blue Cross and Blue Shield Plans was a significant effort by all parties involved to preserve the beneficial practices of Plans. The special deduction is valuable to Plans, but we submit that it is equally valuable to government and society. As the insurance market becomes more and more competitive -- and that competition is largely based on the ability to reduce premiums by avoiding enrollment of high risk/high cost individuals and groups -- Blue Cross and Blue Shield Plans will have to continue their more liberal practices in order to take advantage of the special tax rules.

Importantly, repeal of the newly crafted provisions would come at the high price of the loss of the incentive for continuation of Plans' community-based services and would generate only a modest amount of new federal revenues. According to estimates of the Joint Committee on Taxation, last year's provisions will result in an estimated $800 million in revenues over 5 years; repeal of the remaining compromise provision would yield only about an additional $100 million over the next 3 years.

With respect to the effect on Blue Cross and Blue Shield Plans, we are barely halfway through our first taxable year after nearly 50 years of being tax exempt organizations. Plans have put enormous efforts into assessing the impact of taxation and adjusting their financial planning so as to continue their services for high risk subscribers. A change in the rules, even before their first taxable year is completed would be enormously disruptive.

Conclusion

The Tax Reform Act of 1986 has had a profound affect on the Blue Cross and Blue Shield system. Plans came away from last year's debate with an understanding that while not willing to continue the complete tax exemption, Congress did agree to a measure of financial support for valuable business practices. That result was carefully thought through by the tax conferees and will yield an estimated $800 million in federal revenues over five years while establishing an incentive for Blue Cross and Blue Shield Plans to continue their community-based services for the high risk segment of the market.

We respectfully ask that no changes be made to the provisions of the Blue Cross and Blue Shield provisions in the Tax Reform Act of 1986.

Blue Cross
Blue Shield
of Illinois

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Theodore E. Desch
Senior Vice President
Law & Corporate Affairs

August 13, 1987

COMMITTEE ON
RECEIVED
AUG 18 1987
WAYS AND MEANS

The Honorable Dan Rostenkowski
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Dan:

As you are aware, repeal of the 833(b) deduction is one of the revenue-raising options being considered by the House Ways and Means Committee and the Joint Committee on Taxation.

I urge that you oppose this repeal.

I can cite no stronger argument against repeal than that contained on page 231 of the pamphlet issued on June 25, 1987 by the Joint Committee and the Ways and Means staff:

> "4. Existing Blue Cross/Blue Shield organizations typically provide health insurance coverage to individuals and small groups who might not otherwise be able to purchase such coverage from other insurance companies. A significant increase in the tax liability of such an existing Blue Cross/Blue Shield organization might force the organization to drop this special coverage."

Blue Cross and Blue Shield of Illinois provides this coverage to more than half a million employees of small businesses and self-employed and retired individuals, many of whom are your constituents. Repeal would have a major impact on millions more of these people nationwide.

In short, the revenue this repeal would produce is insignificant compared with the damage it would do. I hope that you agree and that you will oppose repeal of 833(b).

Thank you for your consideration.

Very truly yours,

TED:pmd

Health Care Service Corporation, a Mutual Legal Reserve Company
(Blue Cross and Blue Shield of Illinois)

Statement

Submitted by

CIGNA CORPORATION

CIGNA Corporation submits this statement for the record on the revenue increase options prepared by the Staffs of the Joint Committee on Taxation and the Committee on Ways and Means.

CIGNA is one of the largest publicly owned financial services companies in the world. Its subsidiaries are leading providers of insurance, health care, employee benefits and financial services to businesses and individuals worldwide.

CIGNA is concerned generally about a number of proposed options including those for employee benefits, insurance and annuities, most of which have been considered and rejected by Congress on previous occasions. However, there is one new item described as "life insurance company consolidation" (II.D.13.b) that we believe is unsound as a matter of tax policy and should be rejected. This statement is specifically directed to that item.

The proposal would treat income from a controlled foreign life insurance corporation that is currently taxed to its U.S. parent as if it were the income of a domestic life insurance company in applying the rules for consolidation of life insurance companies with non-life insurance company affiliates.

Present law limits the use of losses of non-life companies against the income of life company affiliates that join in filing a consolidated return. The limitation is equal to the lesser of 35 percent of non-life losses or 35 percent of life company income. *See* IRC section 1503(c). Present law also provides that insurance and investment income of a controlled foreign insurance corporation, other than same country risk income, is taxable currently to the foreign corporation's U.S. shareholders. *See* IRC sections 952, 953, and 954.

Income of controlled foreign life insurance companies should not be subject to the loss limitation rules that apply to domestic life insurance companies for several reasons:

- First, a controlled foreign life insurance corporation, that otherwise meets the requirements for affiliation, is barred because of its foreign status from joining in the consolidated return filed by its related domestic corporations. *See* IRC section 1504(b)(3). Therefore, the consolidated return rules should not apply to the foreign corporation's income.

- Second, for U.S. tax purposes, it is the U.S. shareholder corporation, not the controlled foreign corporation, that is subject to taxation. Therefore, the status of the U.S. shareholder corporation should govern the treatment of income under the consolidation rules.

- Third, although income of the controlled foreign corporation is currently taxable under Subpart F, losses of the controlled foreign corporation cannot be used to offset income of related corporations or carried back to offset prior years' Subpart F income. It would be inappropriate to treat the income as if it were the income of a separate consolidated domestic life insurance company while the corporation is otherwise treated as a non-consolidated controlled foreign corporation.

- Fourth, the elimination of deferral for insurance income merely accelerated the timing of recognition of income for U.S. tax purposes. The 1986 law did not seek to change the character of that income. Loss of deferral can be viewed as a penalty, in light of retention of deferral for other active business income. Application of the consolidation limits as proposed would constitute an additional unjustified penalty.

Finally, we submit that the present law limitations on consolidation of life insurance companies with non-life affiliates are anachronistic and should be repealed. These restrictions date back to a time when life insurance companies were taxed under special rules that differed significantly from those that applied to other corporations. The changes enacted by the Deficit Reduction Act of 1984 and the Tax Reform Act of 1986 eliminated any justification for continuing the limits on consolidation. Life insurance company taxation was completely revised as part of the Deficit Reduction Act of 1984. As a result, life insurance companies are taxed on a total income basis comparable to other corporations. Further, changes made under the Tax Reform Act assure that property and casualty companies as well as life insurance companies are taxed on their full economic income at the same rate that applies to non-insurance corporations. Accordingly, there is no longer any reason to deny to life/non-life affiliated groups the full tax consolidation treatment that is available to all other U.S. corporations.

CIGNA Corporation believes that the proposed extension of the life/non-life consolidation restrictions to the currently taxable income of the controlled foreign life insurance corporations is inappropriate and should be rejected. If enacted, the proposed changes would exacerbate an already harsh and unjustified exception to general U.S. tax policy regarding consolidation of U.S. corporations.

Respectfully submitted,

Quincy S. Abbot
Senior Vice President

STATEMENT

OF

THE COMMITTEE OF ANNUITY INSURERS

ON

REVENUE INCREASE OPTIONS

The Committee of Annuity Insurers appreciates this opportunity to advise the Committee on Ways and Means of our concerns with proposals contained in the Joint Committee on Taxation's "Description of Possible Options to Increase Revenues" that would adversely affect nonqualified deferred annuity contracts. The Committee of Annuity Insurers, a coalition of 26 of the leading annuity writers in the United States, was formed in 1981 for the purpose of monitoring legislative and regulatory issues affecting the annuity issuer and the annuity policyholder. A list of our member companies is attached.

The options list presented for the Committee's consideration includes proposals that would change dramatically the tax treatment of the inside build-up on nonqualified deferred annuity contracts. The Committee of Annuity Insurers strongly opposes such changes and urges Congress to reject once again these proposals, as it did just as recently as last year. Before turning to the merits of the proposals being advanced, it is essential to fully understand the unique characteristics of a nonqualified deferred annuity contract, and to review the present tax laws governing deferred annuities and the policy behind such tax laws.

Deferred annuities are a well-suited means of providing income security during an individual's retirement years. The purchase of an annuity confers on the policyholder a guarantee that, at retirement, these savings, plus interest, will be returned in the form of a stream of payments that will continue for the remainder of the policyholder's life. An annuity is therefore the most convenient and complete method available today for providing for supplemental retirement income and for ensuring against the risk that the individual may outlive the means of his or her support.

Most importantly, it must be reiterated that the annuity contract is not a tax avoidance device. The premiums for a nonqualified annuity are paid in after-tax dollars, that is, such premiums are not deductible from gross income. Furthermore, current law does not allow interest on annuities to escape tax -- it only permits a deferral of tax. All income credited to the contract is taxed at ordinary income tax rates when the money actually is received by the policyholder.

In 1982, 1984, and 1986, Congress, after exhaustive review, made substantial changes to the tax treatment of annuities to ensure that such contracts are utilized for long-term investment and retirement purposes. As a result of these changes, and as is pointed out in the options pamphlet, if a policyholder makes a premature withdrawal from an annuity contract, the amount withdrawn is considered to come from the gain that has accrued under the contract (the inside build-up) and is thus currently taxable to the policyholder. In addition, with limited exceptions, a penalty tax of ten percent is imposed on withdrawals from a deferred annuity that occur before the owner has reached age 59-1/2. For these purposes, a loan against, or pledge of, the annuity contract is treated as a taxable distribution. Furthermore, to curb any potential for continuing deferral after the death of the annuity policyholder, present law requires (except in the case of a surviving spouse) that distributions be commenced within a specified period after the policyholder's death.

These rules collectively have established a framework which assures that favorable tax treatment is available only to those products that fulfill their historical purpose -- to provide retirement income. At the same time, they preserve the tax treatment which, for sound reasons of national policy, Congress has extended to these contracts since 1913.

Now, the Committee on Ways and Means has been presented with two proposals affecting the tax treatment of annuity contracts that specifically were considered by Congress just last year. One option suggested for the Committee's consideration would tax an annuity policyholder currently on the interest credited to his or her annuity contract (the inside build-up). An alternative proposal would limit the amount that a policyholder could invest in a newly-issued annuity contract on a tax-deferred basis. These proposals, which have been thoroughly examined and rejected by Congress in the past, are unsound as a matter of tax policy and as a matter of retirement policy. For the reasons discussed below, we urge the Committee on Ways and Means to reject once again these options during your consideration of reconciliation legislation.

Under the first option, the owner of an annuity contract would be treated as being in receipt of the contract's cash surrender value, even though the policyholder has not received these amounts either directly or constructively. Thus, the policyholder would be placed in the position of paying a tax on income he or she cannot effectively receive if the policyholder wishes to retain the basic benefits that were acquired with the purchase of the annuity. As a result, the policyholder would incur ongoing negative cash flow (because of the tax paid) for the privilege of purchasing the annuity.

Under existing law, as discussed above, the owner of an annuity contract is taxed only when certain contract distributions occur. This follows the time-honored doctrine of "constructive receipt," which holds in part that potentially taxable gains that are "locked up" in property, and therefore not reducible to cash without surrender of valuable rights in that property, do not properly constitute income currently subject to tax. The options proposal, if adopted, would override the doctrine of constructive receipt in the case of annuity contracts, and would tax inside build-up as it arises. By so doing, the proposal would depart from well-established tax principles that generally continue to be accepted. There has been a long-standing and understandable hesitation to levy a tax on income that exists only theoretically in a taxpayer's hands, since the tax must be paid with cash rather than with theories. To force the owner to pay tax currently on gains locked up inside an annuity contract would present very real problems to the owner. Not only would such treatment represent a fundamental change in the taxation of annuity products, it is contrary to both sound tax policy and sound retirement policy.

Similar arguments can be advanced against the second option which would limit the amount of premiums that an individual may pay for an annuity contract and not be taxed currently on the income credited to the contract. It is not possible to determine a "perfect" annuity premium amount that would account for the retirement needs of every individual and his or her family. Individuals who live in high cost areas, who do not have an employer-provided pension plan, or who have obligations that extend beyond their working years might find it necessary to set aside larger amounts of monies for their retirement. If Congress arbitrarily imposes a premium limit, these individuals would be forced to restrict their contributions or be placed in the position of paying taxes on income they have not actually received.

In addition, it has been suggested that a limit may be appropriate in light of the fact that present law places certain restrictions, such as nondiscrimination rules or contribution limits, on other types of retirement devices. However, such an argument fails to take into account that these "qualified" retirement vehicles are funded predominantly with tax-free dollars, while no special tax deduction is allowed through the payment of a nonqualified annuity premium. Furthermore, the present law nondiscrimination rules for qualifed pension plans primarily are designed to limit tax-deductible employer contributions to those plans which do not discriminate in favor of the highly-paid. A rule addressing such a concern has no application to the individual that purchases a nonqualified deferred annuity contract with his or her own after-tax dollars.

Most importantly, this concern that nonqualified annuities "circumvent important rules applicable to qualified plans" was specifically addressed in the Tax Reform Act of 1986 where Congress revised the tax treatment of nonqualified annuities to provide that the inside build-up on corporate owned annuities would be subject to current taxation. These changes were made for the express purpose of ensuring that deferred annuity contracts could not be used to fund, on a tax-favored basis, deferred compensation of employees outside of the restrictions generally applicable to a qualified plan. The concern has been addressed. Nothing more is needed.

Imposing a limit on the amount that an annuity policyholder can invest on a tax-deferred basis also fails to recognize the flexibility that such a contract can offer. While vehicles such as Individual Retirement Accounts, which do have contribution limitations, offer an important supplement to personal savings for retirement, they do not, nor can they, meet every individual's needs. For example, many middle-income individuals are not able financially to set aside $2,000 each year early in their careers. As a result, the funds that they ultimately could contribute to an IRA beginning at age 45 or 50, will not provide sufficient retirement income. That person could, however, purchase an annuity contract and still be assured that he or she will have an adequate retirement income. However, a limitation placed on the amount that an individual can contribute on a tax-deferred basis would unfairly penalize the annuity purchaser vis-a-vis the individual who was able to make annual contributions to an IRA from an early age.

Such a proposal also fails to take into consideration the case of a participant in an employer-sponsored pension plan, who leaves his or her place of employment prior to retirement. In many instances, the individual chooses to rollover these monies, in one single payment, into a nonqualified deferred annuity. Imposition of a dollar cap would serve only to discourage the individual from continuing to save for his or her retirement, particularly when the amount rolled over exceeded the limitation. Surely, this is not what Congress intends.

More fundamentally, if limiting the tax deferral is the reason behind the proposal, the suggested remedy is misplaced. The amount of tax-deferred income is as much (or more) a function of the rate of interest credited, and the period of time over which it is credited, as the aggregate premiums paid. Thus, limiting the premiums will leave different contractholders in different situations as to their tax deferral, depending on when they purchase their contracts, from whom, and what the prevailing interest rates have been and will be.

Finally, if a premium limit was imposed, the annuity value that it supposedly would allow to be purchased would be subject to erosion over time -- by the effects of inflation.

Americans have become increasingly concerned over their future financial security and the means by which they can provide for it. Although the Social Security system may provide a floor of protection, it never was intended to, and does not, provide for an individual's total retirement needs. The recent press coverage of the inability of our Nation's qualified pension plans to meet even the minimal retirement needs of a changing technological workforce is evidence enough of the important role which nonqualified annuities can and must play. Obviously if individuals are to provide for financial security in their later years, they must supplement their Social Security and their pension plans with personal savings. The annuity product is uniquely suitable for providing such supplemental income. Congress should continue to encourage savings through such socially desirable products.

The Joint Committee on Taxation's "Description of Possible Options to Increase Revenues," also offers a discussion of the alternative minimum tax ("AMT") and suggests that additional preference items could be added for AMT purposes. The inside build-up on annuity contracts is mentioned as a possible addition.

The theory behind the AMT is that all taxpayers who have current economic income should pay some tax currently on that income. Present law contains certain provisions that operate, for regular-tax purposes, as incentives by permitting acceleration of deductions or exclusions from income. Under the alternative minimum tax, individuals who use these so-called "preference items" for regular tax purposes are required to add them back to income for purposes of determining whether the individual has AMT liability. In other words, the AMT is intended to ensure that no taxpayer with substantial economic income can avoid tax liability by using exclusions, deductions, and credits.

While the perception that high-income taxpayers may be able to avoid taxes because of the number of preference items in present law may justify the inclusion of such benefits in the alternative minimum tax, such a justification does not exist in the case of the inside build-up on an annuity contract. First of all, the purchase of an annuity contract does not permit a taxpayer to decrease the amount of taxes on his or her current economic income. No favorable benefit is derived because taxes already have been paid on the dollars used to purchase the contract. Nor is it reasonable to consider the limited deferral on such annuities as a method by which individuals can avoid paying their fair share of taxes. As discussed previously, the owners of annuity contracts have not constructively received the increase in the value of their contracts, and their rights to receive these amounts are subject to substantial restrictions. Moreover, when annuity payments commence the investment income is taxed at ordinary income rates.

Furthermore, such a proposal adds substantial complexity to the law. We submit that the minimal amount of revenue -- if any -- that might be raised by including the inside build-up on annuity contracts as a preference item under the AMT does not outweigh the additional burdens and complications that such a provision would add to the tax laws.

The Committee of Annuity Insurers urges the Committee on Ways and Means to reject any proposals that would alter the tax treatment of the inside build-up on annuity contracts. The current tax treatment of deferred annuity contracts is grounded in sound tax and social policy. A policyholder should not be taxed currently on income he or she has not received. As a matter of social policy, the reasons for the traditional taxation of annuities have not diminished. In fact, today more than ever, we as a nation need to encourage individuals to provide for their own security in their retirement years. For many, the annuity provides the only source of retirement income outside of social security. The proposals on nonqualified annuities put forth in the options pamphlet are unsound tax policy and even more importantly unsound retirement policy. As such, we respectfully request that they not be included in any reconciliation legislation reported from your Committee.

Respectfully submitted,

Gail Bramblett Wilkins

Counsel for
Committee of Annuity Insurers

COMMITTEE OF ANNUITY INSURERS MEMBER COMPANIES

Aetna Life & Casualty Insurance Company
Allstate Life Insurance Company
American Express Company
American General Life Insurance
American International Group
Anchor National Life Insurance
Capital Holding Corporation
Church Life Insurance Corporation
CIGNA Insurance Companies
Equitable Life Assurance Society of the United States
Family Life Insurance Company
Guardian Life Insurance Company of America
Hartford Life Insurance Company
IDS Life Insurance Company
Integrated Resources Life Companies
Kemper Life Insurance Companies
Keystone Provident Life Insurance Company
Life Insurance Company of the Southwest
Metropolitan Life Security Insurance Companies
Nationwide Life Insurance Companies
New England Mutual Life Insurance Company
New York Life Insurance Company
Reliance Life Companies
Sun Life of Canada
The Manufacturers Life Insurance Company
The Travelers Insurance Companies

July, 1987

STATEMENT OF THE COMMITTEE OF LIFE INSURERS BEFORE THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES HOUSE OF REPRESENTATIVES CONCERNING OPTIONS TO RAISE REVENUES

The Committee of Life Insurers appreciates this opportunity to submit comments to the Committee on Ways and Means on the possible options to raise revenues with respect to life insurance contracts presented in the Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means (JCS-17-87), June 25, 1987 (the "Description of Possible Options").

The Committee of Life Insurers is an ad hoc group of 22 life insurance companies which sell a wide variety of life and health insurance products, including single premium life insurance policies. The Committee was organized to monitor tax legislative developments affecting life insurance contracts, and single premium life insurance contracts in particular, and to convey the views of the member companies to the Congress. A list of the companies which comprise the Committee of Life Insurers is appended to this statement.

I. Introduction

The Description of Possible Options lists (at pages 223 - 224) the following possible changes with respect to the Federal income tax treatment of life insurance contracts:

1. Include the inside buildup of newly-issued life insurance policies in the income of the policyholder.

   Alternatively, include the inside buildup of newly-issued life insurance policies in income only in the case of policies held by persons other than natural persons, e.g., corporations.

2. Modify the definition of life insurance "to provide that significantly investment-oriented life insurance policies such as single-premium life insurance policies would not be treated as life insurance policies for Federal income tax purposes . . . . For example, if the amount of the premium in any year substantially exceeds the amount needed for level premium funding of the death benefit, or the income earned on the contract is from high-risk or high-return investments, then the contract would not be treated as life insurance."

   "Alternatively, only the excess investment income could be taxed currently with respect to newly issued policies."

3. In the case of newly issued life insurance policies, distributions

prior to the death of the insured would be treated as coming first from the inside buildup of the policy, i.e., taxed on an income first basis.

4. In the case of new loans under life insurance policies, the loans would be treated as distributions under the policy.

5. "Low or no net interest policyholder loans could be treated as below-market loans and the foregone interest on the loans could be treated as a distribution of income on the contract to the policyholder."

The American Council of Life Insurance and the Health Insurance Association of America have submitted a joint statement (the "ACLI Statement") urging the Committee on Ways and Means not to adopt any of these possible options. We agree with the ACLI Statement and endorse the view that adoption of any of these changes in the treatment of life insurance contracts would be unsound. As the ACLI Statement points out, in the last several years Congress has thoroughly considered the Federal income tax treatment of life insurance contracts. This extensive review resulted in the enactment in 1984 of a Federal tax definition of a life insurance contract and an amendment in 1986 to that definition which altered the traditional treatment of distributions under life insurance contracts. Furthermore, just last year Congress expressly rejected the President's proposal to tax the inside buildup of life insurance contracts.

Taken together, these decisions reflect a considered judgment of Congress that the current income tax treatment of life insurance policyholders is correct. There is no reason to re-examine these carefully crafted congressional decisions in the hurried context of budget reconciliation, especially when very little revenue would be raised by any of the life insurance contract options.

The Description of Possible Options includes, in addition to the proposals with respect to life insurance contracts in general, options with respect to single premium life insurance policies in particular. The ACLI Statement asks that the options with respect to single premium life insurance policies be rejected. Given the many issues which the ACLI must address in its statement, however, its discussion of single premium life insurance policies is necessarily brief.

We believe that the inclusion in the Description of Possible Options of options involving single premium life insurance policies may well have been caused by a misunderstanding of the nature and uses of single premium life insurance. We think it important that these misunderstandings be corrected. Moreover, we respectfully submit that if the true nature and uses of single premium life insurance policies were understood, the Committee would readily conclude that the treatment of such policies under the Internal Revenue Code is correct and that no changes should be made in that treatment. Accordingly, the remainder of our statement will be devoted to single premium life insurance contracts.

II. What is Single Premium Life Insurance?

Some people seem to think that a single premium life insurance policy is a recently developed investment vehicle, the income tax treatment of which Congress has not adequately considered. They are wrong. The fact is that single premium life insurance is a traditional and important form of life insurance, the income tax treatment of which was thoroughly considered by Congress in 1984.

Single premium life insurance policies have been available in the United States since approximately 1900. Like all other life insurance policies, a single premium life insurance policy provides a death benefit substantially greater than the premium paid for the policy, thereby protecting the insured's beneficiary against financial loss from premature death. In addition, the death benefit relative to the policy's premium or cash value is regulated by section 7702 of the Internal Revenue Code, the provision which Congress enacted in 1984 to set forth the tax definition of life insurance.

As its name suggests, the feature which distinguishes a single premium life insurance policy from any other type of permanent life insurance policy is that it is purchased with one premium payment, rather than a series of premium payments extending over a period of years. Aside from the mode of premium payment, however, a single premium life insurance policy is essentially identical to any other form of permanent life insurance contract. Thus, first and foremost, a single premium life insurance policy guarantees that the insured's beneficiary will receive a substantial death benefit whenever the insured dies.

In addition, like all other permanent life insurance contracts, a single premium life insurance policy has a cash surrender value which is mandated by a uniform law, known as the Standard Nonforfeiture Law, which is in effect in all states. In addition to requiring that permanent life insurance policies provide a cash surrender value, the Standard Nonforfeiture Law requires that a policyholder who discontinues making premium payments have the option to use the contract's cash value as a single premium to purchase a paid-up life insurance policy in a lower amount. That is to say, pursuant to uniform state law all permanent life insurance policies may be converted at the policyholder's option into a single premium life insurance policy.

This is not surprising. If the expenses associated with the sale and administration (the "loading") of a life insurance policy are set aside, all forms of permanent life insurance policies are essentially the equivalent on a present value basis of a single premium life insurance policy. Whether an individual purchases a limited pay life insurance contract with level annual premiums payable for a fixed number of years, an ordinary life insurance contract with level annual premiums payable for life, or a universal life insurance contract with flexible premium payments, the present value of the net premium payments (the premiums without loading) for a given amount of death benefit is equal to the net single premium (the single premium without loading) under a single premium life insurance policy providing the same amount of death benefit.

Single premium life insurance policies, like all other permanent life insurance policies, also have a policy loan provision mandated by state law. The policy loan provision usually provides that the life insurance company will lend the policyowner an amount up to the cash surrender value of the policy, that the company can charge interest on that loan at a specified rate (which is limited by state law but may vary in accordance with a formula or an index), and that the policyowner may repay the loan in whole or in part at any time. If, however, the policyowner has not repaid the loan at the time the insured dies, the amount of the death benefit proceeds payable to the insured's beneficiary will be reduced by the amount of the outstanding loan and any unpaid interest.

In sum, single premium life insurance policies generally differ from other forms of permanent life insurance only in that they are purchased with one premium payment. As discussed in the next section of our statement, this difference can be quite beneficial to a purchaser.

III. For What Purposes are Single Premium Life Insurance Policies Purchased?

Single premium life insurance policies are purchased for the same reasons as other forms of permanent life insurance, including the guarantee of lifetime insurance protection combined with long term savings. These reasons have traditionally been recognized as worthy goals deserving of encouragement, not abuses to be discouraged. Indeed, the Description of Possible Options acknowledges this and states (at page 226) both that "[e]ncouraging people with disposable income to provide financially for their dependents in the event of death is an important social policy that should be encouraged . . ." and that "[w]hole life insurance . . . provide[s] a vehicle by which individuals who do not participate in a qualified pension plan may fund adequate amounts of future retirement income and security for their dependents on a tax-favored basis."

The single premium payment method offers particular advantages to purchasers. For example, if an individual aged 45 were to purchase a single premium life insurance policy with a death benefit of $100,000, the single premium paid for the policy would be substantially less than the sum of the 50 annual premiums the same individual would pay for a whole life insurance contract also with a death benefit of $100,000. Indeed, for any given amount of death benefit, the total cost of a permanent life insurance policy will increase as the number of required premiums increases and as the duration over which the premiums are paid lengthens.

Obviously, much of this increased cost is attributable to the fact that in the case of the whole life insurance contract the individual has the benefit of the use of his money prior to each premium payment. The fact remains, however, that purchase of a single premium policy rather than a policy with annual premiums payable for a lengthy period is analagous to making a cash purchase rather than an installment purchase -- the purchaser pays a smaller amount for his or her purchase.

Another advantage of purchasing a permanent life insurance policy with a single premium is that the owner obtains guaranteed permanent (or whole) life insurance protection in a fixed amount without the necessity of any further premium payments. In contrast, if a permanent life insurance policy is purchased on other than a single premium basis, the policy will lapse if future premiums are not paid. (In that event, if the policy has any cash value, the cash value will be applied either to purchase a single premium paid-up policy in a lower amount or to purchase a single premium term policy for a period shorter than the whole of life.)

Like all other forms of permanent life insurance, a single premium life insurance policy provides a savings element through the annual increments to the policy's cash surrender value. The presence of this mandatory savings feature has traditionally been one of the reasons that individuals purchase permanent life insurance rather than term life insurance, and historically it is one of the reasons that some persons have purchased single premium life insurance policies. For example, older individuals are often purchasers of single premium life insurance policies. For such individuals, a single premium life insurance policy offers substantial income protection and estate liquidity from a single purchase payment. In addition, an older person seeking life insurance protection will find level premium or increasing premium coverage to be much more expensive in the long run -- perhaps prohibitively so -- whereas single premium based coverage will present itself as affordably priced.

Nevertheless, the purchaser of a single premium life insurance contract, like the purchaser of any other life insurance contract, obtains a substantial death benefit and must incur mortality charges for this insurance benefit. As a consequence, the earnings on the savings element of a permanent life insurance contract are necessarily reduced by the mortality costs assessed by the insurance company. In addition, an applicant for a single premium life insurance policy must establish that he or she is insurable. No life insurance company will issue a single premium life insurance policy without requiring the applicant to furnish medical information (either by answering a medical questionnaire or by taking a medical examination) and without establishing that the beneficiary has an insurable interest in the insured. Virtually all life insurance companies then verify the applicant's medical history with the Medical Information Bureau.

The consequence of the interrelationship of the death benefit and the savings element of a single premium life insurance policy is that, however beneficial the savings element might appear to an applicant, it is unlikely that a single premium life insurance policy will be purchased by an individual who does not find worthwhile the substantial costs of a large amount of life insurance protection.

IV. Is Single Premium Life Insurance Too "Investment Oriented?"

The Description of Possible Options raises the question whether single premium life insurance policies are too "investment oriented." Congress answered this question with a "no" just three years ago and in effect reaffirmed that answer last year. A review of that experience is nevertheless worthwhile. In 1983 and 1984, Congress intensively studied the Federal income tax treatment of life insurance contracts. That study arose from concerns that some life insurance products were overly investment oriented -- in that they contained large cash values relative to the amount of insurance protection -- and that the traditional use of life insurance as financial protection against premature death was being overshadowed by its use as a tax-favored investment. The congressional study culminated in the enactment of section 7702, the Federal tax definition of a life insurance contract.

A. Section 7702

Section 7702 contains two alternative tests by means of which a contract can qualify as a life insurance contract for Federal tax purposes: (1) a cash value accumulation test, and (2) a test consisting of a guideline premium requirement and a cash value corridor requirement. The cash value accumulation test was designed to allow traditional whole life insurance contracts "with cash values that accumulate at reasonable interest rates" to qualify as life insurance contracts. Joint Committee on Taxation, General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984, p. 647 (1984) (the "General Explanation"). The guideline premium requirement of the second test "distinguishes between contracts where the policyholder makes traditional levels of investment through premiums and those which involve greater investments by the policyholder," while the cash value corridor requirement "disqualifies contracts which allow excessive amounts of cash value to build up . . . relative to the life insurance risk." General Explanation, pp. 649-50. The cash value corridor requirement thus assures that if a life insurance contract develops a higher cash value than the life insurance company guaranteed at the time the contract was issued (because of higher interest being credited to the policy's cash value, for example), the policy's death benefit will increase. The General Explanation concludes that together "these requirements are intended to limit the definition of life insurance to contracts which require only relatively modest investment and permit relatively modest investment returns." Id.

In developing these definitional tests, Congress specifically reviewed the investment orientation of a number of life insurance products. Some products which traditionally had been sold by life insurance companies, such as endowment contracts, were determined to be too investment oriented and thus were excluded from the tax definition of a life insurance contract. Single premium life insurance contracts were carefully considered in this review.

Given that a permanent life insurance policy's cash value is a byproduct of the advance payment of the cost of insurance, a life insurance policy which is purchased with a single premium will have a higher cash value than one which is purchased with premiums payable for the whole of life. That is not to say, however, that such a policy is too "investment oriented." To the contrary, after extensive consideration, the Select Revenue Measures Subcommittee of the Ways and Means Committee, which was developing the definition of life insurance, determined that the fact that a life insurance policy is purchased with a single premium does not in and of itself mean that the policy is too investment oriented. Thus, the Subcommittee, and ultimately the Congress, specifically concluded that single premium life insurance policies should continue to be treated as life insurance contracts for Federal tax purposes.

Although section 7702 therefore allows single premium life insurance policies to qualify as life insurance contracts, that section imposes strong constraints against the use of such policies as investments rather than to provide life insurance protection. One example of this is that the guideline premium test imposes a stricter assumption with respect to the interest rate used to calculate the guideline single premium (6 percent) than it does for the calculation of the guideline level premium (4 percent). The effect of this stricter interest assumption is to reduce the amount of the premium which could otherwise be paid for a given amount of death benefit. Another example is that, in making the single premium determinations under either of the two definitional tests, it must be assumed that the policy's death benefit does not increase; in contrast, certain increasing benefit patterns may be reflected in determining level premiums. This rule was specifically intended to limit the investment orientation of a single premium life insurance policy, and its effect also is to reduce the amount of the allowable single premium payment.

B. Surrenders and Loans

The Tax Reform Act of 1986 amended section 7702 to limit further the possible use of life insurance contracts in general, and single premium life insurance contracts in particular, as investments. Traditionally, amounts received under a life insurance contract as a result of partial withdrawals or surrenders of the contract have been taxed only after the policyowner has recovered his investment in the contract. That is, such amounts constitute first a withdrawal of the policyowner's investment in the contract, and then a withdrawal of any gain in the contract.

As part of the 1986 tax reform process, Congress reviewed the distribution rules for life insurance contracts. Some members of Congress and representatives of the Treasury believed that application of the traditional rule was inappropriate in circumstances where a life insurance contract had a cash value that was the maximum, or close to the maximum, allowed by section 7702. As a result, section 7702 has been amended to provide that if, during the first fifteen years after a life insurance contract is issued, there is a reduction in the death benefit and amounts are withdrawn from the policy, then in specified circumstances "a portion of the cash distributed to the policyholder . . . will be treated as being paid first out of income in the contract, rather than as a return of the policyholder's investment in the contract . . . ." Joint Committee on Taxation, Explanation of Technical Corrections to the Tax Reform Act of 1984 and Other Recent Tax Legislation, p. 107 (1987).

This rule affects single premium life insurance policies in particular and generally prevents a policyowner from making a substantial partial withdrawal of cash values free of tax during the first 15 years after the policy is purchased. For example, consider an individual aged 45 who purchases a single premium life insurance contract with a death benefit of $75,000 and pays a premium of $18,480, which is the maximum premium section 7702 allows for that particular contract. If two years later, when the policy's cash value is $21,356, the individual partially surrenders his contract and reduces the death benefit to $65,000, while receiving $2,680 of the policy's cash surrender value, all of that amount will be included in the individual's income under the 1986 amendment to section 7702.

The ability of a policyowner to withdraw the cash value of his single premium life insurance policy is constrained not only by the 1986 amendment of section 7702, but also by the design features of such policies. Single premium life insurance policies (like other non-term life insurance policies) are intended by insurers to be permanent life insurance contracts. In order for the insurer to make a profit on such contracts, the contracts must remain in force and the cash value of the contacts must remain with the insurer for a substantial period of time. Thus, almost all single premium life insurance contracts impose a substantial surrender charge if the policyowner surrenders the contract within seven years of purchase, and many impose such charges if the surrender occurs within ten years.

Policyowners do, of course, have a state law mandated right to borrow some or all of the cash value of a life insurance contract. Nevertheless, like most other permanent life insurance contracts, single premium life insurance policies contain disincentives to borrowing. For example, if a policyowner borrows amounts from the policy's cash value, the rate of interest being credited to the cash value is frequently reduced. In addition, interest paid on policy loans under single premium life insurance policies has not been deductible for many decades. Most importantly, if a policyholder does not repay a loan, the death benefit proceeds payable to the insured's beneficiary will be reduced by the outstanding amount of the loan and any unpaid interest on the loan.

In sum, not only are single premium life insurance policies not too "investment oriented," but Congress itself recently has made this determination.

V. Conclusion

We recognize that the Committee on Ways and Means has a very difficult task to perform in a very short time. Under the terms of the fiscal year 1988 Budget Resolution the Committee must meet a revenue reconciliation target of $19.3 billion for the fiscal year 1988 and $64.3 billion for the fiscal years 1988 through 1990. In addition, the Committee must report a bill which reaches these goals by July 28. Moreover, all this must be accomplished less than one year after the Committee and its Chairman reported and guided to enactment the Tax Reform Act of 1986, a comprehensive act which closed many obvious "loopholes" and potential sources of tax revenue.

These goals and the short time frame within which they must be met nevertheless suggest additional reasons why the Ways and Means Committee should not consider any changes in the Federal income tax treatment of life insurance contracts, including single premium life insurance policies. The Federal tax definition of a life insurance contract set forth in section 7702 is extremely complex. The statute was carefully crafted and embodies a number of interrelated provisions intended to accomodate both the policy concerns of Congress and the design of various types of permanent life insurance contracts, including both traditional fixed premium contracts and universal life insurance contracts. Development of this statute took place over a three year period and required extensive participation by the Treasury Department, the congressional tax committees and their professional staffs, and many actuaries and other representatives of the life insurance industry.

In view of the complexity of the tax definition of a life insurance contract, and the importance to so many policyholders that the definition work properly, it would seem ill advised to attempt to modify section 7702 in the midst of the necessarily rushed budget reconciliation process unless there was some pressing need to do so. The facts are, however, that no such need exists.

When it enacted section 7702, Congress anticipated that it would wish to review the operation of that provision. Congress therefore directed the Treasury Department to conduct an analysis of life insurance contracts and their taxation. That report is due to be submitted to the Committee on Ways and Means on January 1, 1989, approximately eighteen months from now. We respectfully submit that that will be the appropriate time, when the relevant facts have been assembled and all concerned have had an opportunity to analyze those facts, to consider whether any changes in the income tax treatment of life insurance contracts should be made.

In addition, it seems highly unlikely that changes in section 7702 would raise any revenue; if the definition of a life insurance contract were to be modified to tax the inside buildup of a certain type of contract, that type of contract would no longer be sold. In any event, even if the estimated revenue effect of such an option were to prove correct, the revenue thus gained is small relative to the potential disruption in the treatment of a product providing valuable benefits to many people. Such a change seems especially unwarranted when, as discussed above, there is no tax policy reason to make any changes -- let alone any immediate changes -- in the tax treatment of single premium life insurance policies.

In conclusion, single premium life insurance policies, despite the impressions to the contrary that some may have had, are traditional life insurance policies and should continue to be treated in the same manner as all other life insurance contracts for tax purposes. Certainly, no changes should be considered during the hurried budget reconciliation process.

Respectfully submitted,

DAVIS & HARMAN

BY: William B. Harman, Jr.
William B. Harman, Jr.

On behalf of the Committee of
Life Insurers

July 15, 1987

Committee of Life Insurers

Charter National Life Insurance Company

Connecticut National Life Insurance Company

Executive Life Insurance Company

Family Life Insurance Company

Fidelity Bankers Life Insurance Company

First Colony Life Insurance Company

Guardian Insurance and Annuity Company, Incorporated

IDS Life Insurance Company

Jackson National Life Insurance Company

Kemper Investors Life Insurance Company

Keystone Provident Life Insurance Company

The Midland Mutual Life Insurance Company

National Home Life Assurance Company

National Western Life Insurance Company

Nationwide Life Insurance Company

North American Company for Life and Health Insurance

North American Security Life Insurance Company

Provident Mutual Life Insurance Company of Philadelphia

Integrated Resources Life Companies

Sun Life Assurance Company of Canada

United Pacific Life Insurance Company

Xerox Financial Services Life Insurance Company

Box 1175
Pierre, SD 57501
July 8, 1987

Dan Rostenkowski, Chairman
Ways and Means Committee
Washington, D.C. 20510

Dear Mr. Rostenkowski:

Please do not support any change in life insurance policy tax law in the name of raising revenue. Little revenue is attributable to any of these proposals, and even that little is unlikely to be raised because the majority of people will not buy permanent life insurance if its cash values or loan proceeds are subject to current tax liability.

Sincerely,

Dave Kenyon
David E. Kenyon

DEK/cb

STATEMENT SUBMITTED ON BEHALF OF THE MUTUAL LIFE INSURANCE COMPANY TAX COMMITTEE

This statement is submitted on behalf of the Mutual Life Insurance Company Tax Committee (the "Mutual Committee"). The Mutual Committee consists of sixty-six mutual life insurance companies.

In a press release dated June 25, 1987, the Chairman of the Committee on Ways and Means invited interested persons to submit written comments concerning any of the various options to increase revenues set forth in the hearing pamphlet[1] prepared by the Joint Committee on Taxation. One option described therein would modify the so-called book income tax preference provision to include an adjustment increasing the "book income" of a mutual life insurance company by adding to it the differential earnings amount defined in Section 809 of the Internal Revenue Code of 1986. For reasons stated below, the Mutual Committee strenuously opposes any adjustment which would add to book income the Section 809 differential earnings amount.[2]

1. Because Sound Tax Policy Reasons Exist to Support the Repeal of Section 809, That Provision Should Not Be Extended to the Minimum Tax Base.

Section 809 disallows a portion of the deduction otherwise allowable for policyholder dividends paid by mutual life insurance companies. The theory underlying this treatment is that some portion of policyholder dividends paid by mutual companies is comparable to dividends paid by stock companies to their shareholders. Under Section 809, mutual company policyholders are treated as part owners and part customers of the company. As owners, according to this theory, policyholders make a capital contribution in the form of a payment of redundant premiums. In addition, under this theory, they receive as owners an equity return on their capital in the form of a portion of their policyholder dividends or other amounts credited to policyholders. Stock companies, of course, receive capital contributions and pay out shareholder dividends to their owners. Because stock company shareholder dividends are not deductible, Section 809 operates to disallow deductions for so-called "owner" distributions made by mutual companies to their policyholders.

Mutual companies believe, and tax policy experts now agree, that the ownership theory of Section 809 is seriously flawed. As explained above, Section 809 is premised on the assumption that the premiums paid to mutual companies by their policyholders include a capital contribution component which, in turn, generates an equity return. The premiums mutual companies receive, however, are fully included in taxable income. Accordingly, mutual companies' taxable income and taxes are increased as a result of the receipt of the assumed capital contributions made by mutual company policyholders. By contrast, stock companies do not pay tax on the capital contributions made by their owners. Section 809 fails to take into account the favorable tax treatment given to stock company capital contributions.

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[1] Staff of Joint Comm. on Taxation and Staff of Comm. on Ways and Means, 100th Cong., 1st Sess., Description of Possible Options to Increase Revenues Prepared for the Comm. on Ways and Means (Comm. Print 1987).

[2] The American Council of Life Insurance (the "ACLI") has submitted a statement commenting on many options contained in the hearing pamphlet. The Mutual Committee supports the position of the ACLI and limits the Committee's comments to one option which impacts mutual life insurance companies.

A recent study by Professor Michael J. Graetz of Yale Law School concludes that Section 809 is not needed to create tax parity between stock and mutual companies. Professor Graetz' study demonstrates that the inclusion in income of mutual company capital contributions justifies the allowance of a full deduction for policyholder dividends, including the assumed equity return thereon. The Graetz study compares a stock company model (i.e., tax free capital contributions, nondeductible shareholder dividends) with a mutual company model without Section 809 (taxable capital contributions, fully deductible policyholder dividends). Assuming both companies earn the same equity return, Professor Graetz demonstrates that both companies would be able to return the same after-tax amounts to their owners. This equivalence exists only if mutual companies' policyholder dividends are fully deductible, i.e., if Section 809 is repealed.

In reaching this conclusion, the Graetz study points out that by including capital contributions in income, mutual companies effectively prepay the tax on any equity return they may earn and distribute to owners. This "prepayment analysis" reveals that, having paid tax on capital contributions, mutual companies have less after-tax capital (per dollar of pre-tax capital contribution) and thus earn a smaller equity return (per dollar of contributed capital) when compared to a comparable stock company which receives tax-free capital. Section 809 creates a tax disadvantage for mutual companies by failing to take into account the fact that mutual companies effectively prepay the tax on their equity return.

The Mutual Committee strongly believes that the ownership theory of Section 809 should not now be extended and carried over to the book income preference provisions of the Code. Indeed, in view of the substantial doubts that have been raised concerning the validity of Section 809's theoretical underpinnings, the Mutual Committee believes that Congress should repeal Section 809 in its entirety.

2. Congress Should Not Extend the Application of Section 809 Without First Reviewing the Pending Treasury Department Life Insurance Study and the Related General Accounting Office Report.

The operation of the life insurance provisions of the Tax Reform Act of 1986 (the "1984 Act"), including Section 809, is to be the subject of further Congressional consideration in the very near future. The 1984 Act directed the Treasury Department to conduct a study of these provisions and to prepare a report to the tax writing committees. With input from industry groups, the Treasury Department recently mailed to stock and mutual companies a comprehensive questionnaire. Responses to the questionnaire will provide an important source of information concerning the operation of the 1984 Act's provisions. Information pertaining to the relative tax burdens and industry segment shares of stock and mutual companies also will be gathered and analyzed. The General Accounting Office (the "GAO") is also conducting a stock-mutual study.

The importance of the pending Treasury and GAO studies was recently recognized by Congress in the Tax Reform Act of 1986 (the "1986 Act"). Faced with proposals to extend Section 809 to mutual property and casualty companies, Congress chose to defer reconsideration of these "enormously complex and controversial" provisions so that the tax writing committees could "review the results and recommendations of a study to be conducted by the Treasury Department."3/

The Mutual Committee believes that the subject of Section 809's applicability to the book income preference rules should be deferred until Congress has the opportunity to consider the Treasury and GAO reports.

3. The Proposal to Adjust Mutual Life Insurance Company Book Income Is At Odds With the Principal Objective of the Book Income Preference Provisions.

Under prior law, some business corporations paid no tax even though they reported substantial earnings on their financial statements given to owners, creditors, or governmental regulators. This fact reinforced the view held by many taxpayers that the income tax laws were unfair.

In an effort to alter the public's perception that the tax laws favored business taxpayers, Congress, in the 1986 Act, made changes in the preexisting corporate minimum tax provisions. One such change was to include for the first time a so-called book income tax preference. Under this new preference, corporate taxpayers must include a portion of their book income in their alternative minimum taxable income ("AMTI"). Specifically, for taxable years 1987, 1988, and 1989, all corporations must include in AMTI one-half of the excess, if any, of book income, as shown on their financial statements, over taxable income (adjusted for other tax preference items).

For these purposes, book income is defined as net income shown on financial statements filed with the Securities and Exchange Commission (the "SEC"), certain audited financial statements, or statements filed with Federal or State regulators (in that order). Congress understood when it enacted the 1986 Act that many life insurance companies do not file financial statements with the SEC. The Conference Committee Report on the 1986 Act accordingly stated that, in the case of a life insurance company whose applicable financial statement is the financial statement (the "statutory statement") filed for regulatory purposes, book income means gain from operations after dividends to policyholders.4/

The central purpose of the book income preference is to improve taxpayer confidence in the tax laws by preventing corporations from reporting the existence of substantial financial statement earnings without paying any tax. The book income rules, as currently written, fully achieve this objective by requiring a mutual company with statutory statement earnings to pay minimum tax if its regular taxable income is substantially less than its statutory statement earnings.

In addition, Section 809 deals with issues which are wholly unrelated to the objective of the book income preference provisions. As explained above, the book income preference rules are directed at specific corporations. Under these rules, any corporation which reports substantial financial statement earnings must pay minimum tax even if its regular taxable income is zero or negative. Section 809, on the other hand, is not targeted at specific companies. Rather, Section

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3/ Staff of Joint Comm. on Taxation, supra note 1.

4/ H.R. Rep. No. 841, 99th Cong., 2d Sess. 273 (1986).

809 was designed to require the mutual segment as a whole to pay regular tax on earnings which are imputed to the mutual segment. It is significant that the Section 809 differential earnings rate is affected by the operating results of the 50 largest stock company fleets and the entire mutual segment. It simply makes no sense to adjust the book income of a mutual life insurance company (as reported to its policyholders and regulators) to reflect the operating results of the 50 largest stock fleets and all other mutual life insurance companies. The difference in the objectives of these two provisions provides compelling support for not expanding the reach of the Section 809 rules to the book income definition.

Moreover, adjusting statutory earnings to reflect the deduction disallowance rules of Section 809 of the Code -- an option contained in the recent Joint Committee pamphlet -- would upset the basic structure of the book income preference rules. By substituting tax accounting rules for financial accounting rules, this proposed adjustment would alter the book income preference so as to impose a book income minimum tax on modified taxable income, not financial statement income as Congress plainly intended.

Congress deliberately defined book income with reference to actual financial statement income unadjusted for general tax provisions including Section 809. This was done to allay the public's concerns that the regular income tax laws were being circumvented by business taxpayers. By adopting a "nontax" measurement of income, *i.e.*, financial statement income, Congress acted to ensure that, for purposes of the book income preference, the income base would not be affected one way or the other by the operation of the regular income tax provisions.

Finally, it is clear that Congress did not intend to burden the definition of book income with the complexities of making a book income Section 809 adjustment. One question which may be raised if the Joint Committee option is given serious consideration is whether Section 809 computations should be adjusted, for book income minimum tax purposes, to reflect financial statement earnings and equity (*i.e.*, a "book income" Section 809). In this regard, Section 809 requires the determinations of the earnings and equity bases of the 50 largest stock company fleets and all mutual life insurance companies. In the regular income tax, these determinations are based on statutory statement earnings substituting, for example (1) Section 807 tax reserves for statutory statement reserves, and (2) Section 808 policyholder dividends for statutory statement policyholder dividends. Section 809 computations also require the determination of each company's "equity base," a term which is defined with reference to statutory statement "surplus" adjusted to eliminate certain liabilities not recognized for regular tax purposes.

Questions such as whether Section 809 would be modified for minimum tax purposes to eliminate the above-described tax adjustments raise the types of "tax" or "book" issues which would arise if Congress adopted the Joint Committee Section 809 option. We believe that Congress could not have had such potential complexities in mind when it fashioned the book income preference rules.

4. Stock Companies Are Not Disadvantaged By the Definition of Book Income Under Current Law.

Certain stock companies have complained that current law's definition of book income favors mutual companies. We understand that they claim that stock companies are more likely to pay book income minimum taxes than are mutual companies.

At the outset, it should be noted that stock companies made this very same argument only last year and Congress rejected it. Nothing has occurred in the interim to require reconsideration now. In addition, the first tax year to which the book income preference applies, i.e., 1987, is only half over. The operating results for 1987 which will determine regular taxable income and alternative minimum taxable income for 1987 obviously are not known. We, therefore, have no way of predicting which companies will pay book income minimum taxes or what the relative impact of these provisions will be on stock and mutual companies.

More to the point, the mere fact that Section 809 exists in the regular tax base provides compelling reasons for not extending such rules to the AMTI provisions. Section 809 effectively requires the mutual segment to pay tax on a minimum amount of earnings. By imputing income to the mutual segment (in an amount roughly equal to 16 - 17 percent of equity), Section 809 ensures that, regardless of their operating results, mutual companies will pay a substantial amount of tax.

We believe that the extension of Section 809 to the book income definition would exacerbate an unfair advantage stock companies enjoy in the regular income tax rules. As explained in point 1 above, stock companies do not include their capital contributions in income. Section 809, on the other hand, assumes mutual company policyholders make a capital contribution in the form of redundant premiums; but Section 809 does not exclude such premiums from income and thus fails to achieve tax parity between stock and mutual companies. This lack of equivalence in the taxation of stock and mutual companies would be compounded if the book income rules were modified to include a Section 809 adjustment. Stated differently, Section 809 should not be extended to the book income definition without requiring stock companies to include their capital contributions in book income.[5]

One final observation is warranted. Minimum tax which is attributable to the book income preference is allowed as a tax credit against the regular income tax in subsequent years. For this reason, the Section 809 proposal is of negligible value to the Treasury in terms of ultimate tax revenues and of virtually no consequence in any multi-year analysis of mutual and stock segment taxes. As a result, we are drawn to the conclusion that the stock company support for this proposal emanates not from a desire on their part to solve any immediate industry segment problem. Rather, we perceive the deeper objective of stock companies to be to invite Congress to reaffirm the validity of these provisions at the very time when tax policy experts have raised serious doubts about Section 809's theoretical underpinnings.

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[5] Equivalence in the book income preference can be achieved only by (1) not extending Section 809 to the definition of book income; or (2) requiring stock companies to include capital contributions in book income. Similarly, tax parity under the regular income tax rules would be achieved either by (1) repealing Section 809, or (2) requiring stock companies to include capital contributions in regular taxable income.

CONCLUSION

The option contained in the hearing pamphlet to extend Section 809 to the definition of book income should not be adopted.

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July 15, 1987

July 15, 1987

WRITTEN SUBMISSION OF THE NATIONAL ASSOCIATION OF LIFE COMPANIES TO THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES HOUSE OF REPRESENTATIVES OPPOSING CERTAIN REVENUE INCREASE OPTIONS

The National Association of Life Companies (the "NALC") submits this statement for inclusion in the record of the hearings of the Committee on Ways and Means, held on July 7 through 9, 1987, on possible options available to increase revenues for the Government's fiscal years 1988-1990. The NALC appreciates this opportunity to present its views on the insurance-related items included in the options list, as compiled by the staffs of this Committee and the Joint Committee on Taxation in their June 25, 1987 document, Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means (JCS-17-87).

The NALC is an association of over 500 life insurance companies domiciled in 48 States, with its headquarters in Washington, D.C. NALC companies are predominantly small to medium-sized, stockholder-owned life insurance companies. These companies have well over 200,000 home office and field employees who provide life insurance products to tens of millions of policyholders throughout the Nation. Reflecting its membership, the NALC is concerned in this instance with the effects that enactment of any of the insurance-related options discussed below would have on smaller life insurers and on their primary customer, the average working American who owns a life insurance policy with a relatively small death benefit.

The options list presented to this Committee includes proposals to tax the "inside buildup" of life insurance policies and non-corporate-owned annuities, albeit only newly issued ones, and if that is not done, then to change the tax treatment of distributions or loans to life insurance policyholders. It also includes proposals, which may or may not relate to the foregoing (it is difficult determine from the staff document), to deny life insurers part or all of the deductions for life insurance reserves that the tax laws have always accorded them, as well as to force an amortization of the commissions the companies pay to their agents.

The NALC is categorically opposed to the enactment of any of such proposals, and therefore joins in the statement filed with this Committee by the American Council of Life Insurance and the Health Insurance Association of America (the "ACLI-HIAA statement"). For these and other reasons well articulated in the ACLI-HIAA statement, these proposals should be rejected by this Committee:

* The proposal to tax the inside buildup would levy a tax on income that does not exist, for no proceeds would have been realized at the time the tax attached, and none would be available to pay the tax.

* Clearly, the enactment of such a proposal would spell the end of cash value life insurance and annuity contracts. By and large, it is the levelling of premiums that makes life insurance policies affordable to the average consumer, yet it is this very concept that taxation of the inside buildup would undermine. What purpose would be served by including in the income of most families relatively small amounts of cash value increases? If the average consumer is discouraged from providing for protection against financial loss due to premature death, or from building up funds for retirement, will Government be prepared to assume such responsibility?

- For most life insurance consumers, the ability to obtain a temporary cash advance from their policies (by loan or otherwise) in the event of emergency or to provide for a major expense is vital. The current rules of the tax law treat such transactions appropriately, and the proposals to change them so as to increase the burden on consumers should not be adopted.

- The proposals to deny life insurance companies their reserve deductions, whether in whole or in part, would effectively and unmistakeably place the companies on a cash basis of accounting. This would distort, rather than fairly measure, their economic income. Adoption of any of such proposals would seriously interfere with the States' ability to discharge the important function of supervising the solvency of life insurers through the requirement of adequate reserve levels, a point which was carefully noted when the life insurance company tax rules were being re-written just three years ago.

- The option relating to capitalization and amortization of agents' commissions is equally meritless. As explained in the ACLI-HIAA statement, enactment of this option, too, would distort rather than improve the measurement of economic income for tax purposes.

- All of these proposals have previously been considered by Congress in detail, even as recently as the 1984 and 1986 tax enactments, and all have been rejected.

The NALC again expresses appreciation for this opportunity to be heard on these issues of great importance to our member companies and their policyholders, and would welcome any questions that the Committee may have for us.

Very truly yours,

S. Roy Woodall
Executive Vice President
National Association of
Life Companies

Reliance Life Companies
A Reliance Group Holdings Company
1 Penn Center / Philadelphia, PA 19103 / 215 / 864-5953

Terry L. Kendall
President and
Chief Executive Officer

July 14, 1987

Robert Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

The Reliance Life Companies appreciate this opportunity to submit comments to the Committee on Ways and Means on the possible options to raise revenues with respect to annuity contracts presented in the Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means (the "Description of Possible Options"). The Reliance Life Companies are comprised of the life insurer members of the Reliance group of insurance companies.

The Description of Possible Options includes two proposals affecting the tax treatment of annuity contracts that specifically were considered by Congress just last year. One option suggested for the Committee's consideration would tax an annuity policyholder currently under the interest credited to his or her annuity contract (the inside build-up). An alternative proposal would limit the amount that a policyholder could invest in a newly issued annuity contract on a tax deferred basis. These issues have been thoroughly examined and rejected by Congress in the past, and for reasons discussed below, we believe this Congress should do likewise.

In 1982, 1984 and 1986, Congress, after exhaustive review, made substantial changes to the tax treatment of annuities to ensure that such contracts were utilized for long-term investment and retirement purposes. As a result of these changes, and as is pointed out in the Description of Possible Options, if a policyholder makes a premature withdrawal from an annuity contract, the amount withdrawn is considered to come from the gain as accrued under the contract (the inside build-up) and is thus currently taxable to the policyholder. In addition, with limited exceptions, a penalty tax of 10% is imposed on withdrawals from a deferred annuity that occur before the owner has reached age 59½. For these purposes, a loan against or a pledge of, the annuity contract is treated as a taxable distribution. Furthermore, to curb any potential for continuing deferral after the death of the annuity policyholder, present law requires (except in the case of a surviving spouse) that distributions be commenced at the time of the policyholder's death. These

United Pacific Life Insurance Company   United Pacific Reliance Life Insurance Company of New York   Reliance Life Insurance Company

rules collectively established a framework that assures that favorable tax treatment is available only to those products that fulfill their historical purpose - to provide retirement income. At the same time, they preserve the tax treatment which, for sound reasons of national policy, Congress has extended to these contracts since 1913.

The Reliance Life Companies urge the Committee on Ways and Means to reject any proposals that would alter the tax treatment of the inside build-up on annuity contracts. The current tax treatment of deferred annuity contracts is grounded in sound tax and social policy. A policyholder should not be taxed currently on income he or she has not received. As a matter of social policy, the reasons for the traditional taxation of annuities have not diminished. In fact, today more than ever, we as a nation need to encourage individuals to provide for their own security in their retirement years. For many, the annuity provides the only source of retirement income outside of Social Security. The proposals on non-qualified annuities put forth in the Description of Possible Options are unsound tax policy and even more importantly unsound retirement policy. As such, we respectfully request they not be included in any reconciliation legislation reported from your committee.

If you would like more information on this subject or if you would like to discuss this subject further, I will be more than glad to sit down with yourself or a member of your staff to discuss our concerns concerning the proposed changes in the tax treatment of annuity contracts.

Thank you for the opportunity for us to express our opinions. Please feel free to contact us if you have any questions.

Very truly yours,

Terry L. Kendall

Terry L. Kendall
President and
Chief Executive Officer

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United Pacific Life Insurance Company
United Pacific Reliance Life Insurance Company of New York

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Terry L. Kendall
President and
Chief Executive Officer

July 14, 1987

Robert Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

The Reliance Life Companies appreciate this opportunity to submit comments to the Committee on Ways and Means on the possible options to raise revenues with respect to life insurance contracts presented in the Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means (the "Description of Possible Options"). The Reliance Life Companies are comprised of the life insurer members of the Reliance group of insurance companies.

The Description of Possible Options includes several options with respect to life insurance contracts, including taxing the inside build-up, narrowing the Federal tax definition of a life insurance contract, deeming partial surrenders to constitute a withdrawal of any gain in the policy and treating loans as taxable withdrawals. The current Federal income tax treatment of life insurance policies is correct and no changes are needed. Set forth below is a summary of the principal reasons why none of these options should be pursued by Congress.

- During consideration of the legislation that became the Tax Reform Act of 1986, the President proposed, and the Congress rejected, the taxation of the inside build-up of life insurance contracts. Congress recognized that taxing the inside build-up would discourage the purchase of life insurance policies, and thereby impair the important societal goal of encouraging people to provide for their families in the event of death.

- In 1984, after extensive consideration, Congress enacted a Federal tax definition of a life insurance contract, which assures that all life insurance contracts provide substantial life insurance protection. Section 7702 imposes strict limits on the investment orientation of all life insurance policies, including single premium life insurance policies.

United Pacific Life Insurance Company   United Pacific Reliance Life Insurance Company of New York   Reliance Life Insurance Company

- The Description of Possible Options suggests that single premium whole life policies are too "investment-oriented." This is a common, but incorrect, perception of what is in fact a traditional life insurance product which provides the owner's beneficiary with a death benefit that is substantial in proportion to the policy's cash value. Single premium whole life should not be highlighted as an investment vehicle but rather it should and must be thought of in the same context as other traditional life insurance plans.

- The present tax treatment of life insurance policy loans is entirely consistent with long standing tax principles applicable to loans generally. The only possible rationale for creating a taxable event in the case of a loan is to equate a loan with a sale or distribution of the collateral securing it. This is not what occurs in the case of a policy loan any more than in the case of any other loan.

  Interest on loans under single premium whole life policies has not been deductible for many years. In addition, the Tax Reform Act of 1986 amended Section 7702 to limit further the possible use of life insurance policies, and single premium whole life policies in particular, as investments. As a result of the 1986 Act Amendment, a single premium whole life policyowner cannot make a substantial surrender of cash values free of tax during the first 15 years after the policy is purchased.

- Permanent life insurance is not a tax loophole for the wealthy. Taxing the inside build-up would hurt modest or middle income individuals the hardest because most buyers of permanent life insurance are in these groups.

- The fact that loans under non-qualified annuities are treated as distributions does not mean that it is appropriate to so treat loans under life insurance policies. Congress imposed special rules on annuity distributions to prevent their use as investment vehicles. Section 7702 serves the same purpose in the case of life insurance policies; no additional rules are necessary.

- The Budget Reconciliation Process is attempting to raise $64.3 billion for the fiscal years 1988 - 1990. Very little, if any, revenue will be raised if changes are made in the definition of life insurance or in the rules governing loans and partial surrenders. The Joint Committee's revenue estimates of the effects of changes in the treatment of single premium life policies demonstrate there is little revenue to be gained from such change. In any event, the Budget Reconciliation Process is not the place to consider technical or "tax reform" proposals put forth by a few persons.

- At the time Section 7702 was enacted, Congress directed the Treasury Department to conduct a study of the effects of that section on life insurance products. That study is due in 1989 and is likely to include an evaluation of the tax treatment of inside build-up, surrenders and loans. When that study is concluded, all the views can be presented and heard and that will be the proper time to review these issues.

  Even though it is thought that some change in the treatment of single premium whole life policies should be considered, that consideration should take place outside of the hurried Budget Reconciliation Process, and at a time when all the facts with respect to single premium whole life policies can be examined. In addition, Section 7702 is a very complex statute governing the tax treatment of all life insurance policies, and it was adopted only after extensive consideration by the Treasury Department, the Congressional Tax Committees and their professional staffs. Single premium whole life policies differ very little from other forms of permanent life insurance except that they are purchased with one premium payment rather than a series of premium payments. As a result, any changes intended to affect only single premium whole life policies could easily have a far broader sweep than impacting all life insurance policies.

For the reasons set forth above we believe the current Federal income tax treatment is correct and no changes are needed with respect to the taxation of life insurance policies and single premium life insurance policies. We urge you to consider these comments when the Ways and Means Committee addresses the possible alternatives to increase revenue for the future. The Reliance Life Companies are opposed to any tax changes in the area of life insurance contracts and the life insurance industry as a whole is united in this opposition to changes in the treatment of all life insurance products, including single premium policies.

If you would like more information on this subject or if you would like to discuss this subject further, I will be more than glad to sit down with yourself or a member of your staff to discuss our concerns regarding the proposed changes in the tax treatment of life insurance policies and single premium policies.

Thank you for the opportunity for us to express our opinions. Please feel free to contact us should you have any questions.

Very truly yours,

Terry L. Kendall

Terry L. Kendall
President and
Chief Executive Officer

Reliance Life Insurance Company
United Pacific Life Insurance Company
United Pacific Reliance Life Insurance Company of New York

July 15, 1987

WRITTEN SUBMISSION OF THE STOCK COMPANY INFORMATION GROUP TO THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES HOUSE OF REPRESENTATIVES CONCERNING OPTIONS TO INCREASE REVENUE

The Stock Company Information Group ("SIG") submits this statement for the record of the July 7-9, 1987, hearings of the Committee on Ways and Means concerning revenue increase options. For the reasons stated in the joint submission of the American Council of Life Insurance and the Health Insurance Association of America ("ACLI-HIAA") filed with the Committee, which the SIG member companies fully endorse, the SIG opposes enactment of the various proposals to change the taxation of life insurance and annuity contracts, life insurance company reserves, and agent's commissions as set forth in the pamphlet entitled Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means, dated June 25, 1987 ("hearing pamphlet"). In the view of the SIG, these proposals are no more deserving of enactment now than when they were previously considered and rejected by Congress.

I. Introduction

The Stock Company Information Group is a coalition of 28 investor-owned life insurance companies organized in 1981 to monitor tax legislative developments and to convey the views of its membership on life insurance tax issues to the various insurance trade associations and to the Government. The SIG encompasses a majority of the 50 largest stock life insurance companies in the United States, taking into account its members' affiliated companies. The SIG has been privileged to work closely with the Committee and its Staff in connection with the development of the insurance tax provisions as part of the Tax Equity and Fiscal Responsibility Act of 1982 (the "1982 Act"), the Deficit Reduction Act of 1984 (the "1984 Act"), and the Tax Reform Act of 1986 (the "1986 Act"). A list of SIG members appears at the end of this statement.

Among the possible options to increase revenue listed in the hearing pamphlet are several proposals that would radically alter the way owners of life insurance and annuity contracts are taxed and the way that life insurance company reserves and agents' commissions are treated. The SIG believes that these proposals are fundamentally unsound and should be rejected, just as they were when raised previously. The SIG, therefore, supports the ACLI-HIAA statement in urging that the Committee discard these proposals. The SIG would also have the Committee note that full reconsideration of these and other proposals is currently scheduled, by statute, to occur in 1989 with the aid of formal reports from the Treasury Department. See section 231 of the 1984 Act. This more deliberate approach was previously settled on in recognition of the relatively complex, and often inter-related, nature of the items involved. Thus, taking up any of these proposals at this time would at best be premature.

Without repeating all the reasons set forth in the ACLI-HIAA submission, the SIG would like to take this opportunity to record its concerns over the proposals.

II. Discussion of the Proposals

A. Taxing the "Inside Buildup" Of Life Insurance And Annuity Contracts

The hearing pamphlet describes, on pages 221-227, several options that would to a varying extent subject to current taxation the "inside buildup" of life insurance and annuity contracts. Under the most sweeping proposals, the inside buildup on all newly issued life insurance policies, and deferred annuity contracts held by natural persons, would be subject to current tax. More limited variations on these proposals include taxing the inside buildup of single premium life insurance contracts (by changing the tax definition of "life insurance contract") and on deferred annuities with investments exceeding a specified cap. The various proposals, however, all involve the fundamental issue of the propriety of taxing currently the inside buildup of life insurance and deferred annuity contracts.

These proposals, if enacted, would reverse the long-standing recognition that providing financial protection for dependents in case of death through life insurance, and accumulating funds for retirement though deferred annuities, are important social goals that individuals should be encouraged to pursue. Since 1913, the income tax laws have taxed the owner of a life insurance or annuity contract only when certain contract distributions occur, rather than simply as cash values build up. Time and again, Congress, and this Committee in particular, have rejected proposals to tax the inside buildup on such contracts -- most recently in connection with the 1986 Act, and before that when the tax rules for life insurers and their products were comprehensively revised as part of the 1984 Act.

Instead, Congress has appropriately chosen to refine the relevant provisions of the tax law so that the current treatment would be confined to those life insurance and annuity contracts that are used in a manner consistent with the intent of Congress underlying that treatment. Thus, in each of the 1982, 1984, and 1986 Acts Congress amended the tax rules to ensure that only those life insurance contracts designed to provide death benefit protection, and only those amounts accumulated under deferred annuities to provide for future retirement, would be accorded the historic treatment.

At odds with this more deliberate, studied approach taken by Congress, these proposals would have the Committee again consider what it has firmly rejected in the past. One of the proposals, for example, would have the Committee consider a precipitous and yet significant change in the carefully crafted, highly complex definition of life insurance enacted in 1984 and amended in 1986. The proposal, apparently reasoning that paying for a life insurance policy with some unspecified number of premiums is (magically) sounder than paying for it with fewer premiums, would have the Committee quickly change a statute which required a joint undertaking of Congress, the Treasury Department, and numerous industry representatives over three years to develop. If any provision of the tax law needed to be reviewed on a careful, unhurried basis, in keeping with the approach contemplated by section 231 of the 1984 Act, surely it is the definition of life insurance.

Quite apart from the fact that Congress has appropriately rejected proposals such as these in the past, these proposals contradict basic tax principles. In particular, under the long-standing doctrine of constructive receipt, potentially taxable gains that are "locked up" in property, and thus are not reducible to cash without the surrender of valuable rights in that property, do not properly constitute income currently subject to tax. Congress naturally has been hesitant to levy a tax on "income" that only theoretically exists in a taxpayer's hands, since the tax must be paid with cash rather than with theories. Taxing currently gains locked up inside a life insurance or annuity contract, as these proposals aim to do, would significantly raise the cost of obtaining insurance protection or retirement security and thus greatly discourage individuals from purchasing such contracts. The SIG, therefore, strongly urges the Committee once again to reject these proposals.

B. Changing the Treatment of Life Insurance Reserves

The hearing pamphlet describes, also on pages 221-227, several options that would change the way life insurance companies treat their reserves for tax purposes. One option, for example, proposes to prohibit life insurance companies from deducting increases in reserves for newly issued life insurance and annuity contracts, confining them solely to deducting amounts when benefits are paid. Another option proposes to prohibit such a reserve deduction to the extent the reserve exceeds the cash surrender value of a contract.

These proposals run contrary to over 70 years of tax policy and practice. Life insurance companies have always been allowed a deduction from taxable income for any net increase in life insurance reserves, and must include in income any net decrease in those reserves. This historic treatment reflects a recognition of the long-term nature of life insurance, annuity, and noncancellable and guaranteed renewable accident and health insurance contracts -- many of which have no cash values -- which cannot be accounted for with simplicity on an annual basis other than by means of a reserve method. Congress and state insurance regulators long ago came to understand this, and Congress in particular has provided the tax rules that it has for life insurers to ensure that their income and deductions are properly matched.

Adoption of the proposals would contradict this historical pattern and result in a serious mismatching of income and expenses. Ironically, it would place life insurance companies, which by tax statute and state regulation report on an accrual basis, on a cash receipts and disbursements method of accounting for Federal income tax purposes, even as the tax law has moved decidedly in the direction of requiring others to use the accrual method in determining tax liability. For these and other reasons, as developed in the ACLI-HIAA statement, all such proposals should be discarded just as they were before.

C. Treating the Reserve Deduction as a Tax Preference

The hearing pamphlet, on page 224, describes an option under which the deduction a life insurance company takes for life insurance reserves would be treated as an item of tax preference under the new alternative minimum tax. Classification as a tax preference, however, typically is reserved for those instances where special tax treatment which represents a departure from settled tax policy is accorded to select persons or transactions. The deduction for life insurance company reserves, however, is a cornerstone of insurance company taxation that has existed in one form or another since 1913. As just discussed, this historic treatment reflects a recognition that the contracts for which these reserves are held are long-term in nature, and a deduction for reserves is necessary to avoid a severe mismatching of income and expenses. It is difficult to understand the basis for this proposal, beyond the bald fact that it raises revenue, and therefore the SIG urges its rejection.

D. Capitalization of Agents' Commissions

As a final matter, the hearing pamphlet describes, on pages 238-239, an option under which a life insurance company would be required to capitalize the agents' commissions it pays as an expense of earning premium income and to amortize them over a certain period. As is the case with many of the proposals considered so far, this proposal was carefully considered and rejected by Congress in its comprehensive revision of life insurance company taxation under the 1984 Act.

The principal justification offered for the proposal is that capitalization is necessary to limit for tax purposes an apparent mismatching of income and expenses, since agents' commissions are deductible in determining an insurer's gain or loss from operations on its annual statement. But, as the hearing pamphlet itself acknowledges, this overlooks (among other things) the fact that well settled tax accounting principles fully support the current treatment of agents' commissions, particularly in that these expenses are completely accrued for tax purposes. It also overlooks the fact (as, again, the hearing pamphlet acknowledges) that the method applicable to the determination of life insurance reserves deductible for tax purposes under section 807(d) of the Internal Revenue Code -- the Commissioners Reserve Valuation Method -- is a preliminary term method which forgoes initial reserve deductions in order to provide for the expensing of policy acquisition costs (including agents' commissions) in a manner that limits any mismatch of income and expenses. Congress acknowledged this just last year when it declined to extend the 20 percent unearned premium "cutback" to life insurance reserves included under section 832 of the Code, reasoning that this was appropriate "because such life insurance reserves are calculated under sec. 807 in a manner intended to reduce the mismeasurement of income resulting from the mismatching of income and expenses." S. Rep. No. 99-313, 99th Cong., 2d Sess. 496 (1986). The SIG, therefore, once again urges the Committee to reject this proposal.

III. Conclusion

In summary, the SIG fully supports the ACLI-HIAA submission and urges the Committee to reject the proposals just discussed, together with those not specifically mentioned above which are addressed in the ACLI-HIAA statement.

The member companies of the SIG wish to thank the Committee on Ways and Means for the opportunity to comment on this matter.

Respectfully submitted,

DAVIS & HARMAN

by William B. Harman, Jr.
William B. Harman, Jr.
for
The Stock Company
Information Group

MEMBERS OF THE STOCK COMPANY INFORMATION GROUP

Aetna Life & Casualty Company
Allstate Life Insurance Company
American General Corporation
Business Men's Assurance Company of America
Capital Holding Corporation
CNA Insurance Company
CIGNA Corporation
Federal Kemper Life Assurance Company
Federal Home Life Insurance Company
Franklin Life Insurance Company
Hartford Life Insurance Company
E.F. Hutton Life Insurance Company
ICH Corporation
IDS Life Insurance Company
Integon Life Insurance Corporation
Jefferson-Pilot Life Insurance Company
Monarch Capital Corporation
Liberty Life Insurance Company
Life Insurance Company of Georgia
Life Insurance Company of Virginia
Lincoln National Life Insurance Company
Paul Revere Life Insurance Company
Provident Life and Accident Insurance Company
Torchmark Corporation
Transamerica Occidental Life Insurance Company
Travelers Insurance Company
Unum Corporation
Washington National Insurance Company

July 15, 1987

WRITTEN SUBMISSION OF
THE STOCK COMPANY INFORMATION GROUP
TO THE COMMITTEE ON WAYS AND MEANS OF THE
UNITED STATES HOUSE OF REPRESENTATIVES
CONCERNING AN OPTION TO INCREASE REVENUE
BY AMENDING THE MINIMUM TAX RULES

The Stock Company Information Group ("SIG") submits this statement for the record of the July 7-9, 1987, hearings of the Committee on Ways and Means concerning revenue increase options. This statement supports, as an option to increase revenue, an adjustment to the calculation of the "book income" of mutual life insurance companies for alternative minimum tax purposes, as proposed in the June 25, 1987 pamphlet of the Committee Staff and the Staff of the Joint Committee on Taxation entitled Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means (the "hearing pamphlet").

I. Introduction

The Stock Company Information Group is a coalition of 28 investor-owned life insurance companies organized in 1981 to monitor tax legislative developments and to convey the views of its membership on life insurance tax issues to the various insurance trade associations and to the Government. The SIG encompasses a majority of the 50 largest stock life insurance companies in the United States, taking into account its members' affiliated companies. The SIG has been privileged to work closely with the Committee and its Staff in connection with the development of the insurance tax provisions as part of the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984 (the "1984 Act"), and the Tax Reform Act of 1986 (the "1986 Act"). A list of SIG members appears at the end of this statement.

The Committee will examine at length many revenue-raising options in seeking to meet its reconciliation instructions under the budget resolution for fiscal year 1988. Among these is a proposal, described further below, to adjust the manner in which mutual life insurance companies compute their alternative minimum tax liability. The SIG believes that inclusion of this proposal in any revenue package the Committee assembles is particularly appropriate since it not only would raise revenue but also would correct a significant flaw in the new alternative minimum tax enacted as part of the 1986 Act. Indeed, failure to adopt this proposal would sanction the virtual exemption of the mutual life insurers -- including some of the Nation's very largest corporations -- from the new minimum tax rules, contrary to the evident design of Congress.

Before discussing this proposal in greater detail, however, some background is necessary on the taxation of life insurance companies in general and under the alternative minimum tax in particular.

II. Background

A. The Treatment of Policyholder Dividends

A life insurance company may be organized in one of two different forms: it may be a stock company or it may be a mutual company. A stock life insurance company is owned by its shareholders, whereas a mutual life insurance company is owned by its policyholders. A policyholder of a mutual company is thus both an "owner" and a "customer" of the company (see H.R. Rep. No. 98-432, pt. 2, 98th Cong., 2d Sess. 1422 (1984)).

When a stock life insurer pays dividends to its shareholders, it is clear that the amounts so distributed consist of corporate-level earnings -- earnings which should be subjected to Federal income tax. And, indeed, that tax is imposed on the stock company's corporate-level earnings, when they are realized and again when they are distributed to the company's shareholders. Shareholder dividends are not deductible by any corporation (including a stock life insurer) in determining its taxable income.

When a mutual life insurer pays dividends to its policyholder-owners, on the other hand, it is not clear what portion of those dividends is paid to policyholders in their capacity as owners of the enterprise, and what portion is attributable to their role as customers. If these portions were directly determinable, it would undoubtedly follow that for Federal tax purposes, the ownership portion of the dividends would not be deductible by the mutual company in computing its taxable income, while the customer portion would be deductible. In other words, from the mutual company's standpoint, only a limited amount of its dividends would be deductible.

Unfortunately, the portion of a mutual life insurance company's dividends attributable to the ownership role of its policyholders is not determinable by any direct, precise means. Mutual companies have never distinguished between these two elements of their dividends, apparently having neither means nor motivation to do so. Thus, in writing the tax laws over the years, Congress has used approximations to arrive at the ownership-related, and nondeductible, portion of a mutual life insurer's policyholder dividends. In the most recent revision to the taxation of life insurance companies enacted as part of the 1984 Act, Congress adopted current sections 808(c)(2) and 809 of the Internal Revenue Code (the "Code") to reduce the amount of policyholder dividends that mutual life insurance companies could otherwise deduct. This reduction is in an amount approximating the portion of total dividends representing a return to policyholders in their capacity as owners. In this fashion, as under predecessor enactments dating back to the inception of the modern corporate income tax, Congress has preserved in the tax base of mutual life insurers their corporate-level earnings in excess of customer distributions.

Thus, the limitation on the deduction a mutual life insurer may claim for the policyholder dividends it pays or accrues, as found in current sections 808(c)(2) and 809, is fundamental to the life insurance company tax rules and, indeed, to the entire corporate income tax law. Without such a limitation, a mutual life company would be able to remove from its Federal tax base the corporate-level earnings it returns to its owners, a privilege not accorded to any other corporation. As respects stock life companies in particular, the failure to impose such a limitation on the mutual companies would place the stock companies at a tax-induced competitive disadvantage, for stock companies taxable on their earnings would be competing in a life insurance marketplace occupied by virtually tax-exempt mutuals.

B. The Alternative Minimum Tax

As part of the 1986 Act, Congress imposed on corporations an alternative minimum tax intended "to ensure that no taxpayer with substantial economic income can avoid significant tax liability by using exclusions, deductions, and credits." S. Rep. No. 99-313, 99th Cong., 2d Sess. 518 (1986). The base for this new alternative minimum tax is a corporation's regular taxable income (with certain modifications) increased by its "tax preferences." This amount, known as a corporation's "alternative minimum taxable income" ("AMTI"), is subject to tax at a 20-percent rate to the extent it exceeds an exemption amount of $40,000, subject to certain credits. To the extent that this "tentative minimum tax" exceeds a corporation's regular tax liability, the corporation becomes liable for such amount in addition to its regular tax liability.

One of the adjustments a corporation must make in determining its alternative minimum tax liability is to increase its AMTI by a percentage of the amount by which a specified alternative measurement of income exceeds it. For taxable years beginning in 1987, 1988, and 1989, AMTI is increased by 50 percent of the excess of a corporation's "adjusted net book income" over pre-adjustment AMTI; this is the "book income adjustment" referred to in section 56(c)(1)(A) and (f) of the Code. For this purpose, adjusted net book income means the net income or loss reported by a corporation on its "applicable financial statement," subject to certain adjustments. For taxable years beginning after 1989, pursuant to section 56(c)(1)(B) and (g), a corporation's "adjusted current earnings" is used in place of adjusted net book income, and the percentage of the excess includible in AMTI is changed from 50 percent to 75 percent.

In making the book income adjustment for the 1987-1989 taxable years, the applicable financial statement for any mutual life insurance company is its annual statement, a formal accounting report which all life insurers are required to file with state regulators. The annual statement, however, contains two potentially relevant statements of income: gain or loss from operations without a deduction for policyholder dividends, and gain or loss from operations with a deduction for policyholder dividends. The statute (in section 56(f)) does not specify the use of either of these income statements, nor does it give any indication of the extent to which policyholder dividends are to be taken into account in computing the adjusted net book income of a mutual company. The Conference Report on the 1986 Act, however, states that "the conferees intend that the measure of pre-tax book income is the amount of net gain from operations after dividends to policyholders and before Federal income taxes." H.R. Rep. No. 99-841, vol. II, 99th Cong., 2d Sess. 273 (1986).

Thus, giving effect to the language of the Conference Report, the adjusted net book income of a mutual company will be reduced by all policyholder dividends, contrary to the rule in the regular tax base under sections 808(c)(2) and 809. Such adjusted net book income will be considerably lower, and the excess over AMTI correspondingly less, than if a deduction for policyholder dividends were not allowed in full. In contrast, the adjusted net book income of a stock life insurance company (whether measured by its annual statement or otherwise) will be inclusive of all of its shareholder dividends, since no permission is given to deduct any portion of these.

In determining adjusted current earnings for taxable years beginning after 1989, this disparity in treatment between mutual and stock companies (and between the regular and minimum tax bases) is eliminated by reinstituting the effect of the limitation under sections 808(c)(2) and 809. Thus, as explained in the Joint Committee's General Explanation of the Tax Reform Act of 1986 (on page 457):

> In general, adjusted current earnings requires the same treatment of an item as used for purposes of computing unadjusted alternative minimum taxable income [the regular tax base]. Thus, for example, deduction disallowances or limitations that apply for purposes of determining regular taxable income and alternative minimum taxable income also apply for purposes of determining adjusted current earnings (e.g., the disallowance of a deduction for bribes and kickbacks (sec. 162(c)) or for penalties (sec. 162(f)), and the limitation on the deduction for policyholder dividends (sec. 808(c)(2)).

III. The Proposal -- Need for a Correction

As suggested in the hearing pamphlet on pages 234-235, in computing the book income adjustment to AMTI a mutual life insurance company should not have the benefit of a full deduction for the amount of policyholder dividends. The correct rule, rather, is that applicable to the determination of adjusted current earnings. Thus, the dividend deduction limitation of sections 808(c)(2) and 809 of the Code which applies in determining regular taxable income should also apply in determining AMTI, including AMTI during 1987-1989.

As discussed above, Congress recognized in 1984 (as before) that policyholder dividends by mutual life insurers in part represent a return to policyholders in their capacity as owners. Other corporations, including stock life insurers, are not permitted to deduct distributions that represent a return to owners (dividends to shareholders) either in computing their regular taxable income or in determining their adjusted net book income or adjusted current earnings. Allowing mutual life companies a full deduction for policyholder dividends in determining 1987-1989 AMTI, carrying with it the unwarranted benefit of a deduction for distributions to their owners, gives them preferential treatment over other corporations and, in particular, an unfair competitive advantage over stock life companies.

It is a striking anomaly that mutual life insurance companies are denied a full deduction for policyholder dividends for regular tax purposes but are allowed this benefit in making the book income adjustment for alternative minimum tax purposes. This is a reverse tax preference! The aberrant nature of this treatment is further exposed by the fact that, after 1989, the minimum tax base determined by reference to adjusted current earnings will clearly preclude the benefit of a full deduction.

And it is perhaps even more anomalous that the full dividend deduction allowed to mutual life insurers for AMTI purposes during 1987-1989 operates virtually to exempt them from the minimum tax. This result, which was not supposed to happen under the minimum tax rules in light of the book income adjustment, is due to the full deductibility of policyholder dividends accorded to mutual companies.

The preferential treatment of mutual life companies under the 1987-1989 book income adjustment is obviously nothing more than a tax expenditure, and a most improper one.

IV. The Proposal -- Specific Change and Revenues Raised

Accordingly, the book income adjustment should be corrected to preclude mutual life insurance companies from benefitting from a full deduction for policyholder dividends. Specifically, mutual life companies should only be allowed a deduction for policyholder dividends in determining adjusted net book income to the extent they represent distributions to policyholders in their capacity as customers, and not to the extent they represent a return to policyholders as owners. Since sections 808(c)(2) and 809 of the Code were intended to accomplish this for regular tax purposes, and after 1989 will be employed to accomplish this for minimum tax purposes, the book income adjustment rules for 1987-1989 should be amended to permit a mutual life company's deduction for policyholder dividends only to the extent permitted by those sections. This could be done by altering section 56(f)(2) of the Code to specify that a mutual life insurance company, in computing its adjusted net book income, may deduct policyholder dividends only to the extent allowed under section 808(c)(2) (incorporating the rules of section 809) in computing life insurance company taxable income.

Enactment of this proposal would not only correct a significant flaw in the new alternative minimum tax, but would also raise revenues. In the hearing pamphlet, the Staff of the Joint Committee estimated that, over a three-year period, enactment of the proposal would raise at least $100 million in additional revenues. Although this is not an insignificant amount, the SIG has reason to believe that this figure substantially understates the potential revenue that would be raised. Rather, based on the best information currently available, the SIG estimates that the proposal's enactment would produce at least an additional $100 million per year. In the interest of obtaining a more accurate quantification of the proposal's revenue impact, representatives of the SIG stand ready to meet with members of the Staff of the Joint Committee to discuss the matter further.

V. Conclusion

In summary, the SIG believes that the current book income adjustment rules, as applied to mutual life insurance companies, are flawed and undermine the purpose of the new alternative minimum tax. Moreover, correcting this flaw will raise a not insignificant amount of additional revenue. The SIG, therefore, strongly supports the adoption by the Committee of the proposal described above.

The member companies of the SIG wish to thank the Committee on Ways and Means for the opportunity to comment on this matter.

Respectfully submitted,

DAVIS & HARMAN

by William B. Harman, Jr.
William B. Harman, Jr.
for
The Stock Company
Information Group

MEMBERS OF THE STOCK COMPANY INFORMATION GROUP

Aetna Life & Casualty Company
Allstate Life Insurance Company
American General Corporation
Business Men's Assurance Company of America
Capital Holding Corporation
CNA Insurance Company
CIGNA Corporation
Federal Kemper Life Assurance Company
Federal Home Life Insurance Company
Franklin Life Insurance Company
Hartford Life Insurance Company
E.F. Hutton Life Insurance Company
ICH Corporation
IDS Life Insurance Company
Integon Life Insurance Corporation
Jefferson-Pilot Life Insurance Company
Monarch Capital Corporation
Liberty Life Insurance Company
Life Insurance Company of Georgia
Life Insurance Company of Virginia
Lincoln National Life Insurance Company
Paul Revere Life Insurance Company
Provident Life and Accident Insurance Company
Torchmark Corporation
Transamerica Occidental Life Insurance Company
Travelers Insurance Company
Unum Corporation
Washington National Insurance Company

ALTERNATIVE MINIMUM TAX

STATEMENT OF FRED T. GOLDBERG, JR.
SUBMITTED TO THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
ON THE COMMITTEE'S REVENUE RAISING OPTIONS

My name is Fred T. Goldberg, Jr., and I am a partner with the law firm of Skadden, Arps, Slate, Meagher & Flom. I am submitting testimony on behalf of several companies in support of one of the Committee's revenue raising options relating to the corporate minimum tax. (Section II D 15 of the Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means, June 25, 1987.)

The proposal we support would involve measuring the corporate minimum tax adjustment for business untaxed reported profits (the "book income preference") after adjusting book income for certain material events. Specifically, we believe that for purposes of computing the book income preference, companies should generally be required to reflect material events arising in 1985 and thereafter in book income at the same time they are otherwise included in alternative minimum taxable income.* For this purpose, material events are events for which special financial statement disclosure is required pursuant to Accounting Principles Bulletin No. 30 (APB 30), such as the restructuring, consolidation or downsizing of operations; abandonment of productive assets; etc.

This proposal presents the Congress with an opportunity to raise a substantial amount of revenue and to eliminate inequities under the book income preference among similarly situated companies. The proposal is administrable and consistent with congressional intent in enacting the book income preference.

Under the book income preference, added to the Internal Revenue Code of 1986 by the Tax Reform Act of 1986 (the 1986 Act), one-half of the difference between a company's book income for financial purposes and its alternative minimum taxable income (without the book income preference) is treated as an adjustment for minimum tax purposes. The result is generally a tax of at least 10% on the excess of a corporation's book income over its regular taxable income.*

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* This would mean that material events would be included in book income at the same time they are included in regular taxable income for purposes of the book income preference. We suggest an exception to this general rule for asset write-offs, which would provide that companies continue to depreciate those assets for purposes of the book income preference until disposed of for tax purposes.

Congress enacted this provision to ensure that all corporations publicly reporting earnings will pay federal income tax. According to the Statement of Managers accompanying the 1986 Act, Congress was concerned about the perception of highly profitable companies reporting income currently to shareholders while deferring the reporting of such income for tax purposes. This deferral is generally achieved through an acceleration of deductions for tax purposes which has the effect of depressing taxable income currently. In addition, Congress had concluded that the number of permanent differences between book and taxable income meant that the effort to tax the economic income of a corporation would not succeed without more than a compilation of specific preference items subject to the alternative minimum tax.

In general, it is clear that the book income preference will achieve its intended purpose with one notable exception. The exception is material events

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* After 1989, the book income preference is replaced with an adjustment based on adjusted current earnings.

(described above), where the assumption that underlies the book income preference -- that companies are reporting income to shareholders currently while deferring the reporting of income for tax purposes -- is reversed. In the context of a material event (e.g., a restructuring charge), a company reports reduced financial income to its shareholders before reducing its taxable income, or reports increased taxable income before it reports increased income to its shareholders.

The result of this anamoly is as follows: unless the proposal to adjust book income for material events is adopted, companies with material events during 1987, 1988, and 1989 will enjoy a reduction in minimum tax liability -- in many cases, they will not be taxed at all, either for minimum tax or regular tax purposes, on their economic income. In contrast, companies with material events during 1985 and 1986 (prior to the effective date of the 1986 Act) will face additional minimum tax liability during 1987, 1988, and 1989 -- in many cases they will be taxed twice on the same economic income.*

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* Because the new minimum tax is a separate system of taxation, Congress devised rules to ensure that economic income would be taxed only once -- under the minimum tax regime, or under the regular tax regime, but not under both. This was accomplished through the minimum tax credit carryforward mechanism and a series of adjustments (Footnote continued)

Adopting the proposal we support would eliminate a glaring inequity in the book income preference as enacted. By applying the rule uniformly to all taxpayers, it would also generate substantial additional revenue. A report prepared by the Policy Economics Group at KPMG Peat Marwick concludes that the proposal in question would raise more than $600 million of revenue during the 1987-91 time frame.

In considering the wisdom of this proposal, three additional points are worthy of note. First and foremost, my public and private sector experience have convinced me that the road to undermining our tax system (and a road we may have started down) is paved with sound tax theory that cannot be reasonably and readily applied in practice. Thus, it is imperative that all tax legislation and tax regulation be tested against a standard of administrability. The proposal in question does not create a significant administrative burden. It therefore meets this standard. APB 30 requires separate identifi-

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(Footnote * continued from previous page)
to regular taxable income used to compute alternative minimum taxable income. As noted, in the material events context the rules Congress devised will not achieve their objective: some companies' economic income will be taxed twice while other companies' economic income will not be taxed at all.

cation of material events on a company's financial statements; existing tax and financial accounting rules already generate the information necessary to make the recommended modifications in computing the book income preference.

Second, if this proposal is not adopted, taxpayers will be able to minimize tax liability to the extent they can defer or accelerate the reporting of material events. This will create an unnecessary tension in financial accounting (and reduce the accuracy of reporting to shareholders) whenever the decision is a close one.

Finally, this proposal is fully consistent with what Congress intended when it enacted the book income adjustment. In the context of material events, taxpayers are reporting taxable income before they report financial income to their shareholders, either because the income is included for tax purposes before it is included for book purposes or because deductions or losses are reported for book purposes before they are reported for tax purposes. This is not the type of discrepancy that concerned the Congress -- quite the contrary. Indeed, we believe that Treasury was given the regulatory authority in the 1986 Act to adopt the proposal, and that support for a regulatory adoption of the proposal could be included in the Technical Corrections Act now pending before your Committee.

Regardless of how the proposal is adopted (as a means to raise revenue in the budget reconciliation process, as a technical correction, or through Treasury regulations), the result will be the same: an administrable and equitable rule that furthers Congressional intent as reflected in the 1986 Act and raises substantial additional revenue.

I appreciate the Committee's willingness to consider this matter and would be happy to furnish any additional information that you request.

COMPLIANCE

STATEMENT OF THE HONORABLE LES AUCOIN

BEFORE THE HOUSE WAYS AND MEANS COMMITTEE

JULY 15, 1987

Mr. Chairman:

I appreciate this opportunity to appear before you today to give you my thoughts on the difficult issue of raising taxes.

Before I begin, Mr. Chairman, I have to say that I do not envy your position. The prospect of having to raise any kind of taxes is disturbing to everyone, especially we politicians.

But you and your committee have been instructed by the Budget resolution to raise revenue, regardless of your preference.

I am here today to suggest a more palatable way to raise revenues besides increasing taxes. It's an idea that has been championed by our colleague, Byron Dorgan. And it's an option that is touched upon briefly in the committee's option paper.

I'm referring to the closing of what's known as the "tax gap". In a nutshell, there is now conclusive evidence presented by the Internal Revenue Service that American taxpayers owed their government about $556 billion in taxes last year, but only paid about $453 billion of that amount. That's a gap of approximately 100 billion dollars. And, according to the IRS, that gap will double by 1992.

I think this issue can be summarized by asking this question: why should we raise taxes when billions are not even being collected? Why penalize the law-abiding citizen and let the tax cheat get off scott free?

Now I understand, Mr. Chairman, that there is a question as to whether or not the collection of such revenue can be counted towards the $64.3 billion that we must raise over the next three years. Whether or not this is true, I would still suggest that this option be fully explored in order to mitigate any future pain on the American taxpayer.

The fact is that between 1973 and 1986, the rate of taxpayer compliance dropped from 84 percent to 81.5 percent. And the IRS estimates that for each 1 percentage point in non-compliance, the U.S. government loses approximately 7 billion dollars.

Byron Dorgan recognized this problem and organized a task force that was co-chaired by former IRS commissioners Donald Alexander and Jerome Kurtz. And they have come up with a number of excellent recommendations on how we can recoup this lost money.

The task force found that if the Congress appropriated $3.5 billion over the next five years for additional IRS personnel, we would see a $7 billion increase in revenue each year, reaching $35 billion in the fifth year. This amounts to $105 billion in additional revenue collected in five years.

The approach here is extremely logical: we give the IRS a down payment to invest in more personnel and taxpayer services and, over the years, we reap the benefits.

I'd like to take a minute to share with you some of the simple, yet effective, steps that can be taken to encourage taxpayer compliance and increase tax collection to the tune of $35 billion a year:

- We could extend IRS' taxpayer service opertions through the use of "taxmobiles" and "tax fairs". This would be especially helpful in the more rural areas of the country;

- We could expand the number of temporary IRS offices during the tax season. This would be particularly appropriate in light of the new tax law changes;

- We could improve telephone service by expanding assistance hours to the evenings and weekends, and by giving better training to telephone operators; and

- We could improve mail response time.

These recommendations are aimed at providing more taxpayer assistance which, in turn, will encourage Americans to comply with their tax obligations.

But we also want to give the IRS the tools necessary to collect money from those who have consciously decided not to pay taxes. Some of the new enforcement initiatives we could take are:

- Raise the examination rate. Now I know this one isn't going to be very popular with the public, but the fact is that the percentage of returns that are audited have declined from 2.6 percent in 1976 to 1.14 percent in 1986. If a person pays his or her fair share of taxes - and most people do, Mr. Chairman - then there's nothing to fear in an audit;

- Give IRS more tax collection personnel; and

- Raise the penalty for wealthy non-filers. The task force recommends that failure to file a return be increased from a misdeameanor to a felony when the taxes owed equal or exceed $10,000.

To acheive these goals, we have to spend some money up front. But I consider the $3.5 billion investment an excellent one - the rate of return is higher than any stock that I know of.

The point I'm trying to make, Mr. Chairman, is why should we impose additional tax burdens on hard-working Americans, when there are thousands out there who refuse to assume any of the burden? Doesn't it make sense to go after the free loaders, instead of increasing the load of law abiding citizens? Doesn't it make sense to ask everyone to share the burden of this civilized society, rather than ask middle America to shoulder yet another burden?

I strongly encourage this committee to examine this issue. And, as a member of the Appropriations Committee, I'm pleased to see that the Treasury Appropriations bill does provide for certain increases in IRS personnel - but there's still more to be done to assure that the IRS is given the resources necessary to collect that which is due our government.

I suggest the committee seriously consider taking steps that will insure that taxes are paid before they are increased. I therefore commend your attention to the Dorgan task force report which provides many more details on this matter.

DIRECT SELLING ASSOCIATION
1776 K Street, N.W., Suite 600, Washington, D.C. 20006
202/293-5760

July 13, 1987

The Honorable Dan Rostenkowski
2111 Rayburn House Office Building
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is written to go on record, on behalf of the ninety-five corporate members of the Direct Selling Association (DSA) and the approximately 4,246,000 independent contractor direct salespeople who sell their products or services, in strong opposition to adoption of the possible withholding option to increase revenues prepared for the Committee on Ways and Means by the staff of the Joint Committee on Taxation with the staff of the Committee on Ways & Means (Joint Committee Print, June 25, 1987, at page 255). A detailed study on this concept was submitted in 1979 to the Committee by the Direct Selling Association's economic consultant, Robert R. Nathan. This study is contained in the Subcommittee on Select Revenue Measures Hearings on H.R. 3245, the Independent Contractor Tax Status and Clarification Act of 1979 (Serial 96-32). I respectfully request that it be reviewed should the withholding option be discussed by the Committee.

Futhermore, I have asked Robert R. Nathan Associates to update their study for submission to you. DSA believes that revenue gains from withholding on direct salespeople would be minimal and based on prior studies, costs to our industry would be several times greater than the net public revenue gain.

Based on the Nathan review of the IRS study in this area, we estimated that sixty-five percent of the 5,152 audited workers had no unpaid tax liability, that seventy-nine percent of these 5,152 workers had an average unpaid tax of only $8.32 and that over ninety-five percent of taxes actually owed was paid. A very small number of taxpayers therefore owed more than minimal unpaid taxes. Futhermore, as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248, TEFRA), new information reporting requirements were specifically imposed on direct sellers. We believe those reporting requirements virtually eliminated non-compliance among those salespersons with substantial unpaid taxes.

By way of additional background, this is an extremely important issue to our industry, second only to the actual status of the salespeople as independent contractors. Last year, our salespeople did some $8.5 billion in retail sales here in the United States. Some eighty percent of our salespeople are women, fifteen percent are minority group members and five percent are over sixty-five years of age. There are approximately 7,500 direct salespeople who live in your Congressional District. Only seven percent work full time and ninety-eight percent are independent contractors. (A list of our companies is enclosed for your files.) Congress specifically recognized their status in TEFRA, statutorily establishing direct salespeople as independent contractors and specifically rejecting the institution of withholding on these small business persons.

We hope that this concept is again rejected. This issue is our top priority as an association and we are at your service to answer any questions you might have.

Best personal regards.

Cordially,

Neil

Neil H. Offen
President

WHO'S WHO IN DIRECT SELLING

DIRECT SELLING ASSOCIATION • 1776 K ST., N.W., WASHINGTON, DC 20006 • 202/293-5760

ACTIVE MEMBER COMPANIES AS OF DECEMBER 10, 1986

Act II Jewelry, Inc. - Lady Remington
(1)
818 Thorndale Avenue
Bensenville, IL 60106
John E. Kiple
312-860-3323
Jewelry - fashion and fine

Alfa Metalcraft Corporation of America
(1)
7970 Bayberry Road
Suite 10
Jacksonville, FL 32216
Terrence Fredricks
904-731-8200
Cookware

American Fire and Safety Corp.
(2)
Treavose Manor
3779 Bristol Road
Bensalem, PA 19020-1040
Greg H. Landau
215-750-7373
Fire extinguishers

Amway Corporation
(2)
7575 East Fulton Road
Ada, MI 49355
Jay Van Andel
616-676-6000
Household, personal/homecare, nutrition, catalog

Avacare, Inc.
(1)
Division of Nutri-Metics International, Inc.
19501 East Walnut Drive
City of Industry, CA 91749
Mulford J. Nobbs
714-598-1831
Cosmetics - skin, hair and health care products

Avon Products, Inc.
(2)
Nine West 57 Street
New York, NY 10019
Paul B. Markovits
212-546-6015
Cosmetics and jewelry

Basket People Home Parties Ltd.
(1)
P.O. Box 238
Taftville, CT 06380
David L. Phipps
203-886-1404
Decorative accessories - wicker products

Bose Corporation
(2)
The Mountain Road
Framingham, MA 01701
Sherwin Greenblatt
617-879-7330
Acoustic wave music system

Brite Music Enterprises, Inc.
(1) (2)
Box 9191
Salt Lake City, UT 84109
W. Edward Brady
801-487-5891
Children's song books, cassettes, records

The Bron-Shoe Company
(2)
1313 Alum Creek Drive
Columbus, OH 43209
Robert J. Kaynes, Jr.
614-252-0967
Baby shoe bronzing

Cameo Coutures, Inc.
(1)
9004 Ambassador Row
Dallas, TX 75247
J. Stanley Fredrick
214-631-4860
Clothing - lingerie, bras, loungewear

Cattani California
(1)
5448 Satsuma
North Hollywood, CA 91609
Lodie Cattani
818-509-0728
Clothing - lingerie and loungewear

Cernitin America, Inc.
(2)
129 Dayton Street
P.O. Box 740
Yellow Springs, OH 45387
Torgil Hagman
513-767-7281
Food supplements, skin and personal care products

Chambre' Cosmetic Corporation
(1)
1200 Network Boulevard
San Antonio, TX 78249
Royce Britt
512-694-0846
Cosmetics and food supplements

Chlon International, Inc.
(1)
19512 Livernois Avenue
Detroit, MI 48221
Arthur A. Attaway
313-862-5851
Perfume

Computerized Buying Network, Inc.
(2)
P.O. Box C-32035
Richmond, VA 23261
William T. Hunt
804-784-3413
Buying club

Concept Now Cosmetics
(1)
14000 South Anson Street
Santa Fe Springs, CA 90670
Rita Berro-Kasdon
213-921-0534
Cosmetics

Consumer Express, Inc.
(1)
One Lakeshore Drive
Suite 1560
Lake Charles, LA 70629
David P. Bertrand
318-436-1125
Cosmetics, household and health food products

Contempo Fashions
(1)
6100 Broadmore
Shawnee Mission, KS 66202
Audrey Denny
913-262-7407
Jewelry and accessories

The Creative Circle
(1)
15777 South Broadway
Gardena, CA 90248
George H. Karlin
213-327-1931
Craft - needlecraft kits

Custom Nails, Inc.
(1)
P.O. Box 2869
Modesto, CA 95351
Tina Berryman
209-538-7535
Ladies' pre-painted artificial fingernails

CUTCO-Alcas Cutlery Corporation
(2)
1116 East State Street
P.O. Box 810
Olean, NY 14760-0810
Erick J. Laine
716-372-3111
Cutlery/cookware/tableware

Debbie Howell Cosmetics
(1) (2)
8650 South Lafayette
Chicago, IL 60620
Deborah Howell
312-874-5504
Cosmetics

Diamite Corporation
(2)
1625 McCandless Drive
Milpitas, CA 95035
Rudy Revak
408-945-1001
Nutritional & personal care

Discovery Toys, Inc.
(1)
400 Ellinwood Way
Suite 300
Pleasant Hill, CA 94523
Lane Nemeth
415-680-8697
Toys - educational, books and games

Doncaster
(1)
Box 1159
Rutherfordton, NC 28139
Michael S. Tanner
704-287-4205
Clothing - ladies dresses, coats, outer/sportswear

Dudley Products Company
(2)
3704 Old Battleground Road
Greensboro, NC 27410
Joe Louis Dudley, Sr.
919-282-0570
Cosmetics

Ekco Home Products Company
(2)
P.O. Box 6386
Thousand Oaks, CA 91359
Ronald H. Franklin
818-991-5034
Cookware and cutlery

Electrolux Corporation
(2)
3003 Summer Street
Stamford, CT 06905
Steven D. Cooper
203-359-3600
Vacuum cleaners/floor polishers and attachments

Elys'ee Scientific Cosmetics
(1)
6804 Seybold Road
Madison, WI 53719
Linda R. Marshall
608-271-3664
Cosmetics

Emma Page Jewelry, Ltd.
(1)
2201 Northland Drive
Austin, TX 78756
Alan Smith
512-451-0988
Jewelry

Encyclopaedia Britannica, Inc.
(2)
Britannica Centre
310 South Michigan Avenue
Chicago, IL 60604
Peter B. Norton
312-347-7000
Educational publications, film

Fashion Dynamics
(1) (2)
1155 Triton Drive
Suite D
Foster City, CA 94404
Janice A. Romant-Solis
415-571-7766
Health/body care, cosmetics, jewelry, toys/collectibles

Fashion Two Twenty, Inc.
(1)
1263 South Chillicothe Road
Aurora, OH 44202
Barbara N. Hart
216-562-5111
Cosmetics

The Fuller Brush Company
(2)
2800 Rock Creek Parkway
Suite 400
North Kansas City, MO 64117
Len D. Dunlap
816-474-1754
Household cleaners, industrial cleaning products

Golden Pride, Inc.
(2)
1107 Lake Avenue
Lake Worth, FL 33460
Harry W. Hersey
305-586-7778
Health and beauty aids/water filter

Great American Health & Nutrition, Inc.
(2)
401 South Acacia Avenue
P.O. Box 6710
Fullerton, CA 92631-6710
Edward D. Paul
714-441-0788
Food supplements, skin care products

Grolier Incorporated
(2)
Sherman Turnpike
Danbury, CT 06816
Keith George
203-797-3500
Educational publications

The Hanover Shoe, Inc.
(2)
118 Carlisle Street
Hanover, PA 17331
Thomas W. Dempsey, Jr.
717-637-6631
Shoes - men's and women's

Health-Mor Inc.
(2)
151 East 22 Street
Lombard, IL 60148
John M. Licht
312-953-9770
Vacuum cleaners/Filter Queen

Herbalife International
(2)
9800 La Cienega Boulevard
P.O. Box 80210
Los Angeles, CA 90009
George E. Betts
213-410-9600
Weight control food products

Highlights for Children, Inc.
(2)
2300 West Fifth Avenue
P.O. Box 269
Columbus, OH 43216
Garry C. Myers III
614-486-0631
Educational publications - magazines

Home Interiors & Gifts, Inc.
(1)
4550 Spring Valley Road
Dallas, TX 75234
Donald J. Carter
214-386-1000
Decorative accessories

House of Lloyd, Inc.
(1)
11901 Grandview Road
Grandview, MO 64030
Harry J. Lloyd
816-763-7272
Toys, gifts, Christmas decorations

Ideal Products, Inc.
(2)
1010 Southeast Everett Mall Way
Suite 229
Everett, WA 98204
Robert C. Barnard
206-347-4744
Weight control/food supplement

Jafra Cosmetics, Inc.
(1)
P.O. Box 5026
Westlake Village, CA 91359
Ronald B. Clark
805-496-1911
Cosmetics - skin care

The Kirby Company
(2)
1920 West 114 Street
Cleveland, OH 44102-2391
R. Scott Mahoney
216-228-2400
Vacuum cleaners

Kitchen Fair
(1)
1090 Redmond Road
P.O. Box 100
Jacksonville, AR 72076
Gary R. Stephen
501-982-7446
Cookware, kitchen accessories and decorative accessories

Lady Finelle Cosmetics
(1)
137 Marston Street
P.O. Box 5200
Lawrence, MA 01842-2808
Maurice J. Feigenbaum
617-662-6112
Cosmetics and skin care products

Lady Love Cosmetics, Inc.
(1)
2001 Walnut Hill Lane
P.O. Box 152015
Irving, TX 75015-2015
E. Don Lovelace
214-580-1444
Cosmetics and skin care products

Learner's World
(1)
6151 West Century Boulevard
Suite 400
Los Angeles, CA 90045
Michael Hawker
213-641-9645
Toys

Learnex Ltd., Inc.
(1)
89 Saw Mill River Road
Elmsford, NY 10523
John J. Toman
914-592-1770
Publications - children's cassettes/books/ed. toys

L'essence
(2)
1101 Gulf Freeway
P.O. Box 1250
League City, TX 77573-5115
Bruce B. Tait
713-332-0566
Perfumes and toiletries

Lucky Heart Cosmetics, Inc.
(2)
138 Huling Avenue
Memphis, TN 38103
Paul D. Shapiro
901-526-7658
Cosmetics and jewelry

Mary Kay Cosmetics, Inc.
(1)
8787 Stemmons Freeway
Dallas, TX 75247
Monty C. Barber
214-630-8787
Cosmetics

Mason Shoe Manufacturing Company
(2)
1251 First Avenue
Chippewa Falls, WI 54729
William M. Scobie
715-723-1871
Shoes - men's and women's

Maya Cosmetics and Skin Care Company, Inc.
(1)
2900 Eighteenth Street
San Pablo, CA 94806
Juanita E. Orr
415-237-1712
Cosmetics and skin care products

McConnon & Company
(2)
McConnon Drive
Winona, MN 55987
Vilas W. Rogers
507-452-2910
Household products/animal/health/insecticides

Miracle Maid
(1)
P.O. Box C-50
Redmond, WA 98052
Philip Lindquist
206-881-6171
Cookware

Neo-Life Company of America
(1) (2)
25000 Industrial Boulevard
P.O. Box 5015
Hayward, CA 94540
Jerry Brassfield
415-786-3401
Household products/vitamins/minerals/food/water

Noevir, Inc.
(1)
1095 Southeast Main Street
Irvine, CA 92714
Wesley H. Miyahara
714-660-1111
Cosmetics

Nutri-Metics International, Inc.
(1) (2)
19501 East Walnut Drive
City of Industry, CA 91749
Mulford J. Nobbs
714-598-1831
Cosmetics, food supplements, bras

Oriflame Corporation
(1)
76 Treble Cove Road
North Billerica, MA 01862
Peter Nawrocki
617-663-2700
Cosmetics - European skin care

The Pampered Chef, Ltd.
(1)
P.O. Box 172
River Forest, IL 60305
Doris K. Christopher
312-366-4059
Kitchenware

Partylite Gifts
(1)
Building 16
Cordage Park
Plymouth, MA 02360
Ruben G. Deveau
617-775-2500
Decorative accessories/giftware

Perfume Originals
(1)
Division of Karisma Marketing Inc.
45 West 34 Street
New York, NY 10001
Philip D. Forte
212-695-9494
Fragrances and related products

Petra Fashions, Inc.
(1)
33 Cherry Hill Drive
Danvers, MA 01923
Jonathan B. Hodges
617-777-5853
Lingerie/sleepwear

Pola U.S.A., Inc.
(1) (2)
251 East Victoria Avenue
Carson, CA 90746
Yoji Iwama
213-770-6000
Cosmetics

Princess House, Inc.
(1)
455 Somerset Avenue
North Dighton, MA 02764
Robert J. Haig
617-823-0711
Decorative accessories - crystal

Queen's-Way to Fashion, Inc.
(1)
2500 Crawford Avenue
Evanston, IL 60201
Robert W. Williams
312-492-1400
Clothing - women's

The W.T. Rawleigh Company
(1) (2)
223 East Main Street
Freeport, IL 61032
P. Douglas McMillan
815-232-4161
Household products - foods/cleaning/medicine/pet

Regal Ware, Inc.
(2)
1675 Reigle Drive
Kewaskum, WI 53040
Gilbert D. Flocker
414-626-2121
Cookware

Rena-Ware Distributors, Inc.
(2)
P.O. Box 97050
Redmond, WA 98073-9750
Philip Lindquist
206-881-6171
Cookware

Rickshaw Imports
(1)
800 North Edgewood Avenue
Wood Dale, IL 60191
Madolyn J. Schwartz
312-860-5452
Decorative wicker accessories

Royal American Food Company
(1) (2)
24307 East 40 Highway
P.O. Box 1000
Blue Springs, MO 64015
Marvin E. Jay
816-229-1000
Food - whey-based/dehydrated

Royal Designs Inc.
(1)
1710 Firman Drive
Suite 100
Richardson, TX 75081
Keith Harding
214-480-0055
Jewelry

Saladmaster, Inc.
(2)
131 Howell Street
Dallas, TX 75207
Keith L. Peterson
214-742-2222
Cookware/tableware

SASCO Products, Inc.
(1)
2151 Hutton Drive
Carrollton, TX 75006
John T. Fleming
214-484-3950
Cosmetics - personal care (primarily Aloe Vera)

Shaklee Corporation
(1) (2)
Shaklee Terraces
444 Market Street
San Francisco, CA 94111
Richard Perry
415-954-3000
Food-supplements/foods/personal care products

Society Corporation
(1)
1609 Kilgore Avenue
Muncie, IN 47304
Foster D. Adams
317-289-3318
Cookware, china, crystal

The Southwestern Company
(2)
P.O. Box 820
Nashville, TN 37202
Jerry Heffel
615-790-4000
Educational publications

Stanhome Inc.
(1)
333 Western Avenue
Westfield, MA 01085
Bill Tower
413-562-3631
Household cleaning products and good grooming aids

STEP's Adventures with the 3R's
(2)
P.O. Box 887
Mukilteo, WA 98275
R. Donald Morgan
206-355-9830
Educational programs-reading/math/perceptual tasks

Tiara Exclusives
(1)
717 E Street
Dunkirk, IN 47336
Robert J. Staab
317-768-6789
Decorative accessories - glassware

Time-Life Books, Inc.
(2)
777 Duke Street
Alexandria, VA 22314
Terrence J. Furlong
703-838-7000
Educational publications

Tomorrow's Treasures, Inc.
(2)
111 North Glassboro Road
Woodbury Heights, NJ 08097
George W. Braun
609-468-5656
Photo albums, photography, cameras

Tri-Chem, Inc.
(1)
One Cape May Street
Harrison, NJ 07029
Walter Powers
201-482-5500
Craft products-liquid embroidery paint

Tupperware Home Parties Inc.
(1)
P.O. Box 2353
Orlando, FL 32802
W. Alan Luce
305-851-4600
Plastic food storage containers, cookware and children's toys

U.S. Safety & Engineering Corporation
(2)
2365 El Camino Avenue
Sacramento, CA 95821
H. Wayne Boyd
916-487-8888
Security systems - fire/burglar

United Consumers Club, Inc.
(2)
8450 South Broadway
Merrillville, IN 46410
Fred A. Wittlinger
219-736-1100
Buyers service

United Laboratories of America, Inc.
(2)
1526 Fort Worth Avenue
P.O. Box 4499, Station A
Dallas, TX 75208
Bill Sparks
214-741-4461
Photo albums/Bibles/books, photo enlargements

Vita Craft Corporation
(2)
11100 West 58 Street
P.O. Box 3129
Shawnee, KS 66203
L. Dale Ashley
913-631-6265
Cookware/china/crystal/tableware/cutlery

Vorwerk USA, Inc.
(1) (2)
528 Northlake Boulevard South
Altamonte Springs, FL 32701
Hans J. Gerber
305-339-8321
Housewares - carpet and floor care equipment

Water Resources International, Inc.
(2)
2310 Sherman Street
Phoenix, AZ 85009
Lowell E. Foletta
602-257-0501
Water conditioning and purification systems

Watkins Incorporated
(1) (2)
150 Liberty Street
Winona, MN 55987
Richard C. Wantock
507-457-3300
Household - food/health/cleaning products

The West Bend Company
(2)
400 Washington Street
West Bend, WI 53095
Dale A. Hafeman
414-334-2311
Cookware and electrical appliances

World Book, Inc.
(2)
510 Merchandise Mart Plaza
Chicago, IL 60654
Harold M. Ross
312-245-3456
Educational publications

World Odyssey
(1)
2200 East Venango Street
Philadelphia, PA 19134
Richard Mandel
215-535-0111
Rattan, wicker, basketware and floral arrangements

Yanbal Laboratories, Inc.
(1)
33-09 Farrington Street
Flushing, NY 11354
J. Fernando Belmont
718-762-2628
Cosmetics and skin care products

Younique Creations
(1)
6100 Broadmoor
P.O. Box 29147
Mission, KS 66202
Nicholas A. Santino
913-262-7400
Crafts - silk flower arrangements

Zondervan Book of Life
(2)
P.O. Box 6130
Grand Rapids, MI 49506
Rex Jones
616-698-3305
Educational publications

MEMBERSHIP INFORMATION:

According to the bylaws of the Direct Selling Association, those eligible for active membership are persons or firms manufacturing or dealing in merchandise intended ultimately to reach the consumer through an in-person contact, as distinguished from sales contacts made by mail or in stores of the seller. An active member must also have a business location in the United States.

DISTRIBUTION METHOD CODE:

Following each company is a numerical code which indicates the primary method of direct selling used by the company. (1) represents party-plan sales, and (2) represents person-to-person sales.

EXECUTIVE CONTACT:

The person designated under each company listing is the EC (executive contact). This is the individual in the member company designated as the liaison to DSA.

DSA
DIRECT SELLING ASSOCIATION
[illegible] K Street, N.W., Suite [illegible] Washington, DC [illegible]
[illegible]

LAW OFFICES
KELLER AND HECKMAN
1150 17TH STREET, N.W.
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WASHINGTON, D.C. 20036
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C. DOUGLAS JARRETT
SHEILA A. MILLAR
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July 20, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways and Means
  Committee
United States House of Representatives
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

This letter expresses the views of our client, the Specialty Advertising Association International (SAAI), on the proposal to withhold income tax from independent contractors. This proposal is one of the "options to increase revenues," which we understand is currently under consideration by the House Ways and Means Committee.

SAAI is a trade association of 3700 small business firms that manufacture or distribute specialty advertising products. Specialty advertising products consist of useful items such as ball point pens, key tags and calendars that are imprinted with an advertising message and distributed without charge for advertising or promotional purposes. Most distributors of specialty advertising products use the services of independent contractors to sell their products and there are approximately 30,000 such individuals in the industry.

SAAI recognizes the need to fund new sources of revenue to curb budget deficits and we applaud your continuing efforts to address this critical problem. We believe, however, that the proposal to withhold income tax from independent contractors would be disastrous for our industry and we strongly oppose it.

Requiring income tax withholding would impose a very difficult administrative burden on distributors in the specialty advertising industry. Most distributor companies are very small businesses that cannot afford the staff and other resources needed to comply with such a proposal. Many would be forced out of business. Others would seek to require their salespeople to become employees, since this would give them the right to control the salespersons in their work. Yet many, if not most, salespeople in the industry desire the freedom associated with independent contractor status. Many, we believe, would choose not to continue selling specialty advertising products--to the detriment of distributors and the industry generally. The proposal would also adversely affect the approximately 1500 manufacturers in our industry because suppliers do not have their own sales force; they use distributors to carry out that function. In sum, the proposal would hurt manufacturers and distributors in the specialty advertising industry, as well as the independent contractors themselves.

Finally, we believe that virtually all independent contractor salespersons in the industry diligently report and pay taxes on their earnings. Accordingly, there is no valid basis for imposing this requirement.

Sincerely yours,

Malcolm D. MacArthur

Malcolm D. MacArthur
Counsel, Specialty Adverising
Association International

GIFT, ESTATE, AND GENERATION-SKIPPING TAXES

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W
Washington, D.C.
20036

James D. McLaughlin
Senior Government Relations
Counsel
202/663-5324

July 15, 1987

Robert J. Leonard, Esq.
Chief Tax Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

We are writing to express the views of the bank trust departments on the estate and gift tax proposals contained in the revenue options paper. The American Bankers Association represents commercial banks whose combined assets comprise more than 95% of the industry total. Nearly 4,000 bank trust departments provide estate settlement and other fiduciary services to customers thus we are familiar with and vitally interested in the transfer tax system.

Our Association questions the apparent desire to seek significant added revenue from the estate and gift tax sector. A new generation-skipping tax which imposed a tax on direct transfers was adopted only last year. Under that same 1986 law estates open for more than two years are required to pay estimated income taxes. These changes have already increased the revenues derived from this area.

The transfer tax system is the result of a carefully fashioned balance, effected over many years, of capital formation and distribution policy on one hand and revenue needs on the other. To impose significant change on that system in the context of seeking quick revenue increases may upset that balance. We urge the Congress to act slowly and deliberately in this complex area of the tax law.

At the same time we recognize the need for additional revenue and the fact that fairness dictates the burden be shared by all taxpayers.

The newly enacted Section 2057 which provides an estate tax deduction for sales to an ESOP is generally seen to have been drafted in an overly broad fashion. We concur in the proposals to clarify this provision as embodied in H.R. 1311 and S. 591.

On the other hand ABA finds it particularly troubling that the concept of a capital gains tax at death has been resurrected. Elimination of the step-up in basis was adopted in 1976. At that time imposition of a capital gains tax at death was considered and rejected in favor of a carryover basis. Carryover basis quickly proved to be disastrously unworkable and was repealed in 1980 without ever having taken effect. Nothing has occurred in the interim to make either approach any more feasible or desirable today and, therefore, it should be avoided.

If Congress finds it necessary to raise even more revenue from the transfer tax area continuation of the 1987 rates would not be seen as detrimental to the structure of the tax. Further changes at this time are undesirable.

We appreciate the opportunity to provide our views at this time and would be pleased to provide additional information to you or your staff.

Sincerely,

James D. McLaughlin

STATEMENT OF AMERICAN COLLEGE OF PROBATE COUNSEL

The American College of Probate Counsel (the "College") is pleased to provide this position paper concerning the pamphlet, Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means (JCS-17-87), June 25, 1987 (the "Revenue Options"), prepared for the House Ways and Means Committee (the "Committee") by the Staffs of the Committee and the Joint Committee on Taxation. The College consists of more than 2500 Fellows, representing all 50 states as well as Canada, Mexico, England and Sweden. These Fellows have been elected because of their experience and expertise with gift and estate taxes and the administration and taxation of trusts and estates.

The College has consistently supported efforts to simplify our transfer tax laws. This motivation underlies its decision to convene a Task Force to consider the Revenue Options on an expedited basis. This paper is being filed with the approval of the Executive Committee of the Board of Regents of the College and responds to a number of the proposals in the Revenue Options in the gift, estate and generation-skipping tax area. Most of these proposals involve very complex issues and appear to raise uncertain or indeterminate revenue. They should not, in the judgment of the College, be considered in a hasty legislative setting dominated by revenue considerations.

The College urges the Committee to be cautious in its consideration of the issues upon which this position paper focuses, primarily because of the enormity of the changes being proposed with respect to transfer taxes.[1] Although the Task Force of the College discussed all of the proposals made to the Committee in the gift, estate and generation-skipping tax portion of the Revenue Options, these comments will focus on several proposals which the College believes are extremely problematic. These particular proposals include maintaining the estate tax rate at or above 55%, the reduction or elimination of the unified credit against the estate tax, and the addition of a capital gains tax at death for all appreciated assets in an estate, possibly combined with carryover basis for assets transferred to a surviving spouse or charity.

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[1] The College is concerned that the Committee might assume that the report of the Task Force on Transfer Tax Restructuring of the Section of Taxation of the American Bar Association, cited several times in the Revenue Options, represents the views of the College, the American Bar Association (or one of its Sections) or some other professional organization interested in our transfer tax system. For the Committee's information, this Report is the work product of five individuals who have presented their views to the Council of the Section of Taxation of the American Bar Association, which has not only avoided endorsing the Report but has also not taken a position that there is a need for action on it at this time. Moreover, the Report has not received the critical study of any other professional group to the knowledge of the College. We understand that the Report may be published shortly in The Tax Lawyer, where it can be expected to generate the widespread comment and comprehensive assessment needed to filter the views represented in the Report into a work product that enjoys broad consensus, or lack thereof, within interested professional groups. The College also understands that in many instances the five members of the Task Force involved in the preparation of this Report had widely divergent views as to the reasonableness or appropriateness of any given proposal. Moreover, the proposal in the Revenue Options to tax unrealized appreciation at death, a monumental change which cites the Report as authority, was included in the Report only as a study paper, prepared by one of the Task Force members, without any recommendation because the Task Force was unable to reach a consensus on the question. In short, the Report should be understood to be the first stage of a process that has many, many more steps to undergo before it should be considered as a final report.

I. Transfer Tax Rates.

In 1987 the applicable gift and estate tax rates begin at 18% for the first $10,000 of transfers, and reach a maximum rate of 55 percent. Under current law, after 1987 the marginal estate and gift tax rate is scheduled to decline from 55% to 50% for transfers exceeding $2.5 million. In addition, a new generation-skipping transfer tax is imposed on transfers that span more than one generation. The generation skipping transfer tax has a flat rate equal to the highest gift and estate tax rate, and each transferor is currently permitted a lifetime exemption of $1 million from the tax.

The College is concerned that the Revenue Options presented to the Committee include the retention of the marginal transfer tax rate applicable in 1987 for transfers made thereafter, e.g., 55%, as well as a possible increase in the maximum tax rates to some higher level, such as 65 percent. The College sees several problems with maintaining the current marginal transfer tax rate of 55% in 1988 and beyond. For instance, the Tax Reform Act of 1986 tied the generation-skipping transfer tax rate to the top gift and estate tax rate. The legislative history explaining this decision, as well as all estate planning following the enactment of the Tax Reform Act of 1986, takes into account the phase down to a 50% marginal gift and estate tax rate beginning January 1, 1988. Individuals and practitioners have relied on this understanding. Moreover, if the marginal gift and estate tax rate stays at 55%, or, indeed, increases to 65%, then, without further amendment, the generation-skipping transfer tax rate would also be 55% or 65 percent.

Obviously the impact of two taxes at 65% or even 55% is quite extreme, and would impose an enormous tax burden on any asset left to grandchildren or more remote descendants.[2] At present, the federal transfer tax is in fact the highest federal tax rate on the books except for certain penalty excise taxes, making it highly unlikely that the public would approve of increasing this tax rate to higher levels.

The College notes that economists have recently turned their attention to the effect of transfer taxation upon income tax revenues in the United States when considering the revenue raising potential of a higher transfer tax rate. Surprisingly, conclusions have been reached that federal income tax revenues tend to decrease as the gift and estate tax rates increase. See, for example, Bernheim, "Does the Estate Tax Raise Revenue?", a paper sponsored by the National Bureau of Economy Research and delivered at its conference entitled "Federal Tax Policy" on November 12, 1986. This phenomenon occurs in part because higher transfer tax rates provoke larger charitable dispositions. It also occurs because higher gift and estate tax rates increase the incentive to give property to descendants as early as possible during life (preferably by resort to gift tax exclusions and exemptions) in order to avoid transfer taxation as to post-gift appreciation. Property thus given tends to be invested in ways that do not produce currently taxable income, and, even in cases where such income is generated, it may well be taxed at lower rates than would have applied had the property been retained by the donor.

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[2] In addition, the new $1 million exemption provision for the new generation-skipping transfer tax was drafted because calculations indicated that $1 million could be expected to grow to $2.5 million over a single generation. The 50% marginal transfer tax rate applies at this $2.5 million level. Obviously, the expected 50% marginal tax rate was a major consideration in the decision to establish a $1 million generation-skipping tax exemption. That decision would be called into question if the marginal rate does not phase down to 50% next year as originally anticipated; at the very least, a higher marginal transfer rate should be accompanied by an increased tax exemption

The revenue need prompting the current Congressional investigation is so immediate that the technique chosen to raise that revenue must be especially efficient. The above phenomenon indicates that increased estate and gift taxation may well lack the required efficiency. Furthermore, economists seem to agree that increased transfer taxes exacerbate the incentive to current consumption. See, for example, Boskin, "An Economist's Perspective on Estate Taxation," Death, Taxes and Family Property, Essays and American Assembly Report, Section of Real Property, Probate and Trust Law, American Bar Association, 56 (1977) and Stiglitz, "Notes on Estate Taxes, Redistribution, and the Concept of Balanced Growth Path Incidence," 86 J. Pol. Econ. S 137 (1978). This phenomenon contrasts directly with the savings incentive which drove last year's dramatic income tax reform legislation. The College emphasizes as well that people should not be forced to change their estate plans on an annual basis. The public expects stability in this area of the law rather than constant change.

In sum, any increases in estate tax rates apparently discourages capital formation and encourages spending that leads to less long term investing. Such increases will also have serious consequences for estates composed mainly of illiquid assets, such as a family farm or a closely-held business. Although there have previously been higher estate tax rates, the impact of a rate hike is now compounded by the generation-skipping transfer tax, making the adverse consequences of higher rates much more extreme.

An alternate proposal made to the Committee is the imposition of a 2% estate tax on the "assets less liabilities held at death with no unified credit allowed." The College does not fully comprehend the proposal just quoted; however, if it means the imposition of a flat tax of 2% on all property transfers in lieu of the current transfer tax, the proposal is extremely regressive and represents a terrible retreat from the legislation of the past 10 years in this area. However, if the proposal actually suggests an extra 2% excise tax on top of the current transfer tax system, the College feels strongly that such a proposal will only add to the burden of some high tax levels already noted above, and suffers from the questionable revenue consequences of increased transfer tax rates.

Finally, the College has briefly considered the proposed single flat rate for the gift and estate tax. While a single rate would be a very simple approach to a complex area of the law, the College again believes that a flat tax rate imposes an extremely unfair burden on smaller estates. Although the flat tax rate concept is both understandable in principle and has surface appeal, in the view of the College it may be a mistake to eliminate all progressivity in the transfer tax system.

II. Unified Credit.

A proposal to reduce or eliminate the present unified credit of $192,800, which effectively exempts the first $600,000 of transfers from gift and estate tax, accompanies the proposals to maintain or increase the highest transfer tax rate. The College believes that a reduction or phase out of the $600,000 exemption equivalent is completely inappropriate, as both estate practitioners and the public have enthusiastically received Congressional reforms extracting modest estates from our necessarily complicated transfer tax system. From time to time, the transfer tax system is justified on the grounds of the societal benefit achieved from breaking up large concentrations of wealth, as well as the need to produce revenue from the process of transferring wealth in or country. It seems completely inappropriate to view estates with a value of $600,000 or less (a level of value reached by many estates consisting solely of a personal residence and contents, retirement benefits and some life insurance) as contributing to any imbalance in the distribution of economic opportunity within the nation.

While the proposal to the Committee correctly states that the increase in the unified credit enacted in 1981 was intended to offset the impact of inflation, it incorrectly assumes that lower than expected inflation rates since 1981 have undercut the need for the increased credit adopted that year. A review of the legislative history for the Economic Recovery Tax Act of 1981 clearly illustrates that the decision to allow a unified credit amount of $192,800 was based upon the levels of inflation that had already occurred between 1942, when the old $60,000 estate tax exemption was enacted, and 1981. Revenue considerations led Congress to phase in this increased unified credit over the next five years. The point for now is that inflation after 1981 is clearly irrelevant to any analysis of the interplay between inflation and the level of the current unified transfer tax credit.

The College believes that there is no social benefit achieved by attacking small estates. Moreover, it may be difficult to overcome a perception that reductions in the level of the credit produce an inequitable result from the standpoint of the owner of a relatively small estate. This kind of tax change also contravenes the Congressional goal of to encouraging taxpayers to save and conserve, thereby supporting a capitalistic society. Finally, compliance problems of considerable magnitude may offset the revenue benefits achieved if almost every estate of reasonably small size is required to file an estate tax return.

III. Carryover Basis.

The repeal of the "stepped-up basis" rule has been proposed to the Committee. In its place, the staffs have proposed that an income tax might be imposed on the net appreciation in property passing from a decedent at his death, perhaps offset by an exemption for smaller estates. It has also been proposed that property passing to a surviving spouse or charity would not be subject to the appreciation tax; rather the assets in question would receive a carryover basis from the decedent in order to ensure that a capital gains tax is eventually assessed on that property. The College submits that this proposal is not well thought out, and may, in fact, be much more problematic than the previously discredited notion of carryover basis initially enacted as a part of the Tax Reform Act of 1976 and later retroactively repealed. While costly and cumbersome recordkeeping problems are involved with this income tax at death/carryover basis proposal, the College also notes that it operates to combine unexpectedly high compliance costs with complexity factors that are not initially as obvious as might be expected. For example, the creation of a distinction between capital gain treatment for noncharitable and nonmarital dispositions and carryover treatment for charitable and spousal dispositions at death would require, quite literally, estate planning on an asset-by-asset basis. In short, testators would likely be advised to transfer to spouses and to charity specific assets in order to achieve the best possible overall estate plan from a tax standpoint. It is frequently difficult today to develop plans that divide estates on a percentage basis, let alone on an asset-by-asset basis. It is not unlikely that a system which distinguishes between immediate tax and carryover basis would encourage completely ambulatory wills in which executors are given the option to review every estate asset and to distribute that asset to a spouse, charity or others. The postmortem estate planning fostered by this prospect of virtually limitless tax planning opportunities is designed to employ tax planners for years. It would also require much broader fiduciary powers and would inevitably lead to additional problems with deductions, credits, exemptions and loss carrybacks. Although a carryover basis for assets transferred to charity might only affect the excise tax paid by private foundations on investment income, this impact would also be extremely complex for those entities and might, if the proposal to increase this tax is enacted, produce serious financial and administrative hardships.

If a capital gain were imposed on every estate at death, the College presumes that a similar tax would be required on property transferred by gift. While the arguments for this proposal refer the Committee to the capital gains tax at death recently enacted by Canada, it is important to recognize that the Canadian capital gains tax, which treats both inter vivos and testamentary transfers as realization events, was enacted as a substitute for a transfer tax system. Further, when Canada replaced its Dominion Estate Tax with an income tax, the revamped system included a "fresh start" basis for all assets subsequently subjected to the capital gains tax. While this transfer tax replacement may have some merit, it is relatively inefficient in terms of raising revenues because of the "fresh start" granted to accrued appreciation. If a tax of this sort were enacted without a fresh start, on the other hand, it would founder on the complications that caused a retroactive repeal of the carryover basis rule enacted by the Tax Reform Act of 1976.

In addition, for those illiquid estates which contain mostly a family farm or small, closely-held business, a capital gains tax on all appreciation at death would essentially require the sale of all estate assets.[3] The College believes that the staffs have not considered in any detail the complexity of what is in essence an additional estate tax, or that such a capital gains tax will be perceived by the public to be a hidden income tax that does not belong in the portion of the Revenue Options devoted to gift, estate and generation-skipping taxes.

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[3] A special capital gains rate of perhaps 14% (one-half of the current 28% rate if the gift and estate tax phases down, as

IV. Valuation of Property.

The College feels that the proposals to include in a parent's estate the full value of property arguably subject to a retained life interest, to value such property by aggregating other interests in the property owned by related individuals and to restrict minority discounts to situations in which there are adverse interests are, again, inherently problematic and do not involve sufficient revenue to merit inclusion in the present Revenue Options pamphlet. Such approaches assume that assets always appreciate and also presume the existence of a willing buyer on the date of death for assets that have no readily determinable market value. Neither presumption is justified. Also, the current valuation standard, the so-called "willing buyer/willing seller" scenario, operates well in theory as well as practice. While the valuation proposals in the Revenue Options

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expected, to a 50% top rate) would be necessary in order to avoid the need for any estate tax deduction for the capital gains tax paid only at death. The special rate for gain realized at death would also obviously have to be adjusted to take into account any increase or decrease in the estate tax rate.

focus exclusively on issues where the current valuation standard may produce favorable (but realistic) results for taxpayers, the "willing buyer/willing seller" standard is not always a one-way street. For example, it can create an artificially high value on those many occasions when it is difficult, if not impossible, to generate interest in the purchase or sale of a closely-held business, especially following the death of a "key man." The College believes that the current valuation system has advantages for both the taxpayer and for the Government, and also believes that the valuation of estate assets is most equitably undertaken on a case-by-case basis, recognizing that in some instances this kind of analysis will lead to a premium value while others justify a discount from value. The College further believes that the arguments for change in this regard are too speculative and that the subject matter is too complex for this particular legislative effort. If there is a problem in this area, it should be addressed elsewhere.

V. Estate Tax Deduction For Sales to an Employee Stock Ownership Plan.

The College has already gone on record supporting either the modification or repeal of the special provision adopted in the Tax Reform Act of 1986 which allows partial relief from estate taxes through an estate tax deduction for certain sales of qualified employer securities to an employee stock ownership plan. The

College does, however, recommend that the repeal be prospective in nature.

VI. Definition of Present Interests for Purposes of the Annual Gift Tax Exclusion.

The College believes that the definition of present interests for purposes of the annual gift tax exclusion has little to do with raising revenues and does not belong in this particular list of options.

VII. Excise Tax on Net Investment Income of Exempt Organizations.

The proposal suggests that an excise tax be imposed on the net investment income of all tax-exempt organizations. This proposal covers all tax-exempt organizations and projects a $15 billion revenue effect. This is a proposal of enormous scope. It involves the issue of whether the Government should tax itself, which is the inevitable result of this proposal if the assumption can be made that charitable organizations exist to carry out governmental or quasi-governmental functions. This seems to be a particularly inappropriate place to seek future tax revenues, and would likely produce a serious erosion of charitable support from private philanthropy if donors perceive that their gifts may be used to fund tax liabilities.

The following Fellows of the American College of Probate Counsel served on the Task Force which prepared this position paper.

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August 27, 1987

Joint Committees on
Taxation and the
House Ways & Means
Committee

Washington, D.C.

Dear Sirs:

I have just read the most frightful news that you are considering a proposal to charge an income tax on the appreciation of property at the date of death of the decedent.

Does this mean that if my husband and I are killed in an accident, our one and only daughter (who would inherit our home which she was raised in) would be then charged an "income tax" on the appreciated value of our home? We built our 2 bedroom, one bath house 31 years ago at the cost of $22,000. Even though we have added as much again in repairs over the years, the appreciation would be at least $200,000 with Hawaii's inflated real estate market. Our daughter earns $12,000 a year as a reservationist. No way could she pay this "income tax" without selling the home!

This means the absolute end to homes being passed on to succeeding generations. No more "old homestead" - Instead, continual spirals of high cost homes on the market! ...Are you sure there are not realtors sitting on your committees?

I'm am furious that you would even consider legislation such as this. This would not only rob my daughter from being able to continue to live in her home, but it also implies that farms across the country can no longer be passed from father to son. What about the tradition of the "Number One son" who lives with and cares for his parents and who ultimately inherits that home to pass to his "number-one son." Will this legislation end this practice as well?

Please consider this proposal with the possible impact it would have. I could see it easily leading to a scenerio where only the very rich live in and own houses - The rest of us will only be able to rent!

Patricia Ekstrand
3092 Wailani Road
Honolulu, Hawaii 96813

Kaplan/Rosenzweig & Associates, Inc. Suite 605, 3 Bethesda Metro Center, Bethesda, Maryland 20814 (301) 652-0614

August 12, 1987

Hon. Dan Rostenkowski
Chairman of Committee on
Ways and Means
U.S. Senate
Washington, D.C. 20510

Dear Congressman Rostenkowski:

Among the proposals being considered by the Way and Means Committee to raise revenue is one which I feel is particularly ill conceived and should be opposed. I refer to the proposal to include in the gross estate of a decedent the proceeds of any insurance policy payable, directly or indirectly, to a relative of the decedent.

Let me first say that I applaud Congress for its efforts to work toward a balanced budget. I feel it is imperative to reduce the budget deficit drastically and feel it is totally unrealistic to do so without an increase in taxes.

Although it would utimately affect me and many of my clients, I would not be opposed to a modest increase in estate taxes and/or a lowering of the unified credit. I do feel strongly that the limited amount of tax revenues that would be raised by the proposal to include insurance payable to a relative or trust do not justify the unavoidable effects. In particular, Mr. Rostenkowski, people with estates in excess of the unified credit would need significantly more estate liquidity should the proposal become law. The only way to get the liquidity would be to buy even more insurance to pay the taxes on insurance covered by the proposal (which would help me), or to sell or liquidate businesses, farms, or other assets (which would hurt the economy as well as the family of the decedent).

Rather than to change dozens of nickel and dime provisions of the tax law, with the complications that would involve for anyone trying to keep track of what the tax laws are or anyone advising clients on the effects of changes in the tax laws, it seems far better to me to cancel the decrease in the top tax rate to 28% or to reduce the amount of the top rate reduction.

To say that the tax laws were made more simple or in many cases more fair last year is ludicrous. I strongly urge you to do whatever you can to at least keep any change made to the tax laws this year simple and straight forward.

Sincerely,

Stephen Rosenzweig, CLU,ChFC,CFP

August 20, 1987

Mr. Dan Rostenkowski, Chairman
Committee On Ways and Means
1102 Longworth, HOB
Washington, D.C. 20515-6348

Dear Mr. Rostenkowski,

I am writing you in regards to the new tax proposal whereby heirs may be taxed on any gains on property they inherit.

I believe this proposal is most unfair to the elderly, who chose to remain in their homes, not taking advantage of the exclusion, should they sell their home.

I am 70 yrs. old, built my home in 1957. Inflation brought the value higher, yes, but we suffered losses from inflation and paid much higher property taxes on our homes.

When I die, my daughter will inherit my home and will then be required to pay a severe penalty to Uncle Sam. She is a needy person, living on poverty level. I feel this is an unfair proposal, and will discourage home ownership. Is our only option to sell NOW, benefit by the exclusion, and then buy a home at today's prices? Or move to apartments?

It seems only fair for this Committee to inform the elderly so that they can choose whatever option penalizes them the least. Many elderly, including me, will be hit hard by this plan if it goes into effect without some sort of compromise, or exclusion for years lived in one homestead.

Please, help us to live out our lives without the horrendous thought of having to move, to re-locate. We ask your deep consideration.

Sincerely,

Lilas Lipske

(Mrs) Lilas Lipske
1916 N. Viola St.
Appleton, Wis. 54911

massachusetts FARM BUREAU federation, Inc.

P.O. Box K — 15 Great Road
Bedford, MA 01730
Tele: (617) 275-4374

July 6, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C.

Dear Mr. Chairman:

The provisions of the proposed budget resolution will require the Committee on Ways and Means to enact legislation which will generate at least $18 million in revenues for the 1988 fiscal year. The five-thousand-member Massachusetts Farm Bureau supports American Farm Bureau policy in urging a reduction of federal spending rather than tax increases or a freeze in scheduled rate reductions to reduce the deficit.

Tax increases or a freeze in scheduled rate reduction are unacceptable because they increase farmers' cost of doing business as well as stifle the economy. The federal government should reduce its expansion in order to curtail inflation and increase domestic productivity. We are concerned that rather than reduce the deficit, tax increases will serve only to generate more spending programs when we can not afford the ones we now have.

Tax policy should be designed to encourage private initiative, economic growth, equity, and simplicity. We oppose reduction of the $600,000 estate tax exemption, increase of tax capital gains at death, and re-enactment of a tax "carryover basis."

Increased taxes, whether thay are excise taxes or repeal of existing exemptions, must be avoided because they would have a negative affect upon the farm economy and reduce net farm income.

Thank you for your attention to our comments.

Sincerely;

James F. Slattery
ADMINISTRATOR

Metropolitan Life Insurance Company
One Madison Avenue, New York, NY 10010-3690
(212) 578-2162

John J. Creedon
President and Chief Executive Officer

Metropolitan Life
AND AFFILIATED COMPANIES

August 26, 1987

The Honorable Dan Rostenkowski
U.S. House of Representatives
2111 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski

The purpose of this letter is to ask your support in opposing the estate tax revenue option now under consideration which would include in a decedent's estate the proceeds of any insurance policy on his life payable to a relative, without regard to whether the decedent ever owned the policy. This option would represent a major and discriminatory departure from long-standing estate tax rules. It would single out life insurance as the only form of property - whether real or personal - that could not be the subject of a gift. Such a result would be most damaging not only to our business but to the public.

The adverse impact of the option would fall most heavily on family estate planning especially with respect to small and medium size family businesses and farms. In the light of this, the revenue option is simply not justified by its relatively small projected revenue.

I have enclosed a memorandum addressed to this issue and would appreciate your help in opposing this revenue option.

Sincerely

John

Attachment

Memorandum in Opposition to Revenue Option Including in a Decedent's Taxable Estate The Proceeds of any Insurance Policy Payable to a Relative of the Decedent

(Description of Possible Options to Increase Revenues
Prepared for the Committee on Ways and Means
June 25, 1987 pp. 263-264)

The purpose of this memorandum is to urge that you reject the revenue option under consideration that would include in a decedent's estate the proceeds of an insurance policy on his life payable to a relative without regard to whether the decedent owned or ever owned the policy.

Current Law - Under current law, the proceeds of a life insurance policy on a decedent's life are includable in the decedent's taxable estate if either (1) they are receivable by or payable to the estate, or (2) the decedent at his death (or any time within three years of his death) possessed any "incidents of ownership" in the policy. Incidents of ownership include the power to change the beneficiary of the policy, to assign the policy, to borrow against its cash surrender value and to surrender or cancel it.

The Revenue Option - The revenue option would create a special estate tax rule for life insurance. Life insurance proceeds payable to a relative would be included in the decedent's taxable estate although the decedent at his death (or any time within three years of his death) possessed no incidents of ownership in the policy.

The revenue option unfairly and unwisely deviates from fundamental estate tax principles by including in a decedent's taxable estate property in which he has no interest at death. - The revenue option represents a substantial deviation from long standing estate tax principles that is unfair and unwise. The federal estate tax is directed to property interests which the decedent owned or controlled at death or within three years of death. The revenue option goes far beyond this creating a rule that would subject to estate tax property which the decedent never owned during his life time or irrevocably transferred many years before his death. A decedent cannot fairly be considered to have transferred property at death in which he had absolutely no interest for years prior to his death.

An ownership interest in a life insurance policy is a substantial and valuable property right. It can include the right to surrender the policy and receive the cash value, the right to name who will receive the death benefit and the right to pledge the policy as security for a loan. Where a decedent has never held such an interest or made an irrevocable transfer of it many years before his death to someone else, he possesses no ownership interest to transfer at death. In this situation, there is no reasonable basis for taxing it as a transfer of property owned by the decedent at death and including it in his estate. No other property is subject to estate tax where the decedent initially purchased it, but long before his death gave away all his rights in it.

The transfer of the incidents of ownership in a life insurance policy and the subsequent payment of any insurance premiums are subject to the gift tax. - Life insurance is currently treated the same as other financial assets for gift tax purposes. Present law subjects transfers of life insurance during a decedent's lifetime to the same gift tax rules applicable to transfers of other assets. Life insurance enjoys no special advantage under the gift tax rules that would justify a disadvantage under estate tax rules. Where the owner of a life insurance policy transfers ownership of the policy during his lifetime, the transfer is subject to a gift tax. If the policy is not fully paid up and the original owner continues to pay the premium after the transfer, these premiums are also subject to the gift tax. In sum, the gift tax rules have long recognized and taxed transfers of ownership in a life insurance policy as transfers of property.

It has been suggested that where the owner of a policy transfers ownership but continues paying premiums (subject to the gift tax), annual gift tax exclusions can reduce gift taxes. But, gift tax planning is not unique to life insurance gifts. The legitimate thrust of estate and gift tax planning generally is to maximize permissible uses of gift tax exclusions. Among many examples, donors often make gifts of stock purchased on margin, and pay off the margin account over a period of years. The gift tax and its exclusions apply to the value of the stock reduced by the margin account and to the yearly payments on the margin account.

The revenue option would single out life insurance as the only form of property - whether real or personal - that could not be the subject of a gift. - The effect of the revenue option would be that life insurance would become the only form of property - whether real or personal - that could not be the subject of a gift. All other forms of property can be given away to family members during a donor's lifetime. In singling out life insurance for discriminatory treatment, the revenue option would be extremely damaging to the public.

The practical effect of the revenue option which is targeted to insurance proceeds payable to family members would be to create more financial hardships for families, small and mid-size family businesses and farms. - Aside from its departure from fundamental estate tax rules, the revenue option would have a particularly pernicious effect on families, family owned businesses and farms. By its terms, the revenue option applies only where the life insurance proceeds are payable to relatives of the insured. In targeting proceeds payable to wives, children and other family members for a special estate tax burden, the revenue option creates new financial problems for families, small and mid-size businesses and family farms.

A major impact of the revenue option would be on arrangements long used to enable families to pass on a family business or farm from generation to generation despite the economic loss flowing from the death and the substantial estate tax liabilities due upon death. The additional funds that would have to be raised to pay the additional taxes under the option, would mean that more of these businesses would have to be sold (if a buyer could be found) or liquidated. These businesses, often "asset rich but cash poor", represent the livelihood of the surviving family and are important contributors to local communities. Their sale or liquidation often means the loss of jobs and damage to their local community.

For the owner of a mid-size business or farm, the business often constitutes most, if not all, of his estate. When the owner dies, an estate tax may be due or debts may be owing on the business. If other funds are not available, the family may then be forced to sell the business or farm to raise the funds to pay the tax or other amounts. Since a business or farm can be a highly illiquid asset, the sale may well be under distress circumstances. Regardless of market considerations, the end result will be that the family will have lost the business or farm.

The White House Commission on Small Business, in its Report issued in April 1980, clearly recognized this problem. As one of its top priorities, it urged revisions to the estate tax laws to "encourage the continuity of family ownership." The delegates "were concerned that the heirs of a business frequently must sell the company to pay estate taxes." Congress has also clearly recognized the problem. However, the steps it took to deal with it -- a stretch out of the estate tax payments -- are not sufficient since businesses may not generate enough cash flow to make the tax payments in addition to meeting all other commitments.

The problem of forced sales of family businesses and farms is alleviated in many situations by the purchase of life insurance to provide the funds necessary to pay the estate tax or other amounts. The proceeds are available to lend to the estate or to buy the business from the estate at a fair market price. Because of its guaranteed death benefit, life insurance is the only vehicle which can insure that adequate funds will be on hand at the time of death.

Consider the example of a family farm owned by a father and operated by father and son. It anticipated that the son will own and continue working the farm on his father's death. The farm is subject to debts and other liabilities often typical of a family farm. To assure that the farm will not be lost upon the father's death due to economic loss upon death and estate tax liabilities, the son owns and keeps up a life insurance policy on his father's life. Upon the father's death, present law would not include the proceeds of the policy owned by the son in the father's taxable estate. The funds would be available to the son for the legitimate purposes for which the policy was purchased. The revenue option, however, would include in the father's estate the proceeds of the policy owned by the son and subject the proceeds to estate taxes. The reasonable family objective which the son could secure under present law would be severely curtailed under the revenue option.

Conclusion - In the light of its potential harm to families, family businesses and farms, substantial departure from long standing estate tax principles and relatively small expected revenue gain, it is urged this estate tax revenue option be rejected.

Metropolitan Life Insurance Company

August 1987

JOHN C. MILLER
FIRST NATIONAL CENTER, SUITE 1384
OKLAHOMA CITY, OKLAHOMA 73102
TELEPHONE (405) 235-2631

July 27, 1987

House Ways and Means Committee
House of Representative
Washington, D.C.

Gentlemen:

Current tax law provides that estate taxes are paid upon the value of the assets at a person's death. It is my understanding that consideration is being given to imposing a capital gains tax in addition to the estate tax. A substantial part of my assets are in land which has been owned for many years. If the law were changed to impose a capital gains tax, I feel certain that this would force the sale of this land, potentially at distress prices.

This would create a severe hardship on my family and needlessly so. I hope that you will not make such a change in the estate tax laws.

Yours very truly,

John C. Miller n.o.

John C. Miller

JCM:ndo

STATEMENT OF THE

NATIONAL FOREST PRODUCTS ASSOCIATION (NFPA)

AND

SOUTHERN FOREST PRODUCTS ASSOCIATION (SFPA)

Mr. Chairman, the forest industry strongly opposes any changes in the estate and gift tax code which would either delay full implementation of the provisions of Economic Recovery Tax Act of 1981 (ERTA) or would increase the tax burden on private landowners. The recent loss of capital gains benefits for timber will, we believe, have a significant adverse impact on the nation's future timber supply. Any additional tax burden on forestry which will dampen investments could put our industry in a very critical position.

Analysis of Current Estate and Gift Tax

Despite the improvements provided by the Economic Recovery Tax Act of 1981, we continue to believe that the the estate and gift tax is both inefficient and inequitable particularly as it is applied to timber.

The current tax is inefficient as it discourages capital intensive investments. Such investments, which offer the greatest potential for economic growth, are characteristically illiquid. This is especially true in forestry. Because of the substantial tax that may be imposed upon death--up to 55 percent now and 50 percent after this year--those in the best position to make meaningful capital investments are encouraged instead to make investments in liquid assests with which their estate might easily satisfy their estate tax obligations. Thus the estate and gift tax continue to frustrate our national goal of stimulating capital expenditures.

The tax is also inequitable in that it favors consumption over savings. Two otherwise equally situated taxpayers--one spending all that he earns, the other saving as much as possible--are taxed dramatically differently upon their death. The taxpayer who consumed his earnings has no estate and no estate tax. The taxpayer who saved however, is subject to an estate tax as a result of having acquired an estate. To relate this to forestry, a landowner who reforested and managed his land over the long-term would be penalized at death where as the owner who "cut and run" would be rewarded for not having acquired any wealth.

Our tax policy should encourage, rather than discourage, savings and investments. To the extent that it continues to discourage savings, we will not acheive the reinvestment in our nation's productive enterprises that is necessary if our economy is to prosper.

Timber Supply and Demand

The U.S. forest products industry represents a major segment of our economy. Annual shipments of products are valued at over $60 billion making our industry the 7th largest in the nation. Over 5,000 consumer products are derived from our forests--commodities which are essential to education, communication, sanitation and health and which contribute in unique ways to the maintenance of our standard of living. An additional--and sometimes overlooked--value of our forests is their role in providing clean air, clean water, wildlife habitat, and recreational opportunities for people.

Demands for all of these products derived from healthy, productive forests have and will likely continue to climb. Although estimates on future demand for wood and wood products vary, there is agreement that it will be significantly higher than today. The U.S. also has the potential to become a net exporter of wood and wood products and contribute significantly to improving our nation's balance of trade. This potential has been characterized as our becoming the "Saudi Arabia of wood".

Given this, we will start with the premise that ensuring an adequate timber supply is a vital national goal.

Private Landowners

Where will all the wood come from to meet these demands? The bulk of it will have to come off the lands of the private landowner--particularly the nonindustrial private landowners.

The U.S. has approximately 488 million acres of commercial forestland--land capable of and available for the growing of commercial tree crops. Over 58 percent of this land is owned by private, nonindustrial landowners. Currently these lands provide well over a third of the wood harvested each year. It is generally agreed that any major increase in demand will have to be met with wood from this ownership.

This presents somewhat of a problem because historically these lands have not been managed very intensively for timber production. Perhaps the most telling indicator of this is the reforestation rate following harvest. Forest Service data indicates that less than half of the lands harvested each year private nonindustrial landowners are intentionally reforested. The Forest Service estimates that it would take over $10 billion in investments in forest management on these lands to bring them up to their biological potential. Not only do these landowners have objectives other than timber production, but they also understand the barriers to and hazards of forest investments. Typical comments from landowners on why they do not invest in forest management include (1):

- "I'll die before the trees are old enough to cut."
- "The initial capital investment costs (land preparation, planting, roads) and annual maintenance costs are higher than ever before."
- "There is no annual income, like rents or dividends."
- "I'm scared that Uncle Sam will take whatever profits I make away from me with confiscatory taxes."

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(1) Statement of Eley C. Frazer, III before the Senate Subcommittee on Estate and Gift Taxation, Committee on Finance; June 27, 1983.

Estate Taxation and Private Landowners

Landowners frequently mention estate taxes as being a barrier to investment in timber management. In 1982, the Forest Service conducted a survey of landowners in the South and found that:

- 48 percent of those surveyed inherited their land;
- over half surveyed thought a highly important reason for owning land was to pass it to their heirs, and
- 76 percent thought reduced estate taxes would be "most important" in their decision to reforest after harvest.

This data is particularly significant given that approximately half of these private nonindustrial landowners are over 55 years old and own over half of the commercial timberland in the U.S.

Estate Taxation and Timber Growth

Depending upon geographical area, tree species and forest management practices, timber crops may take anywhere from 20 to 100 years to reach harvestable size. With such a long growth period, it is not uncommon for a person to harvest a timber crop originally established by his grandparents. In some instances, it is possible for estate taxes to be levied 3 or 4 times on the same stand of timber.

This situation has several effects on the heirs, all of which are bad. First, each death means that a sum of cash must be raised to pay the estate tax. All too often, paying the tax bill means timber must be harvested before it is mature, or a portion of the land must be sold to raise the necessary funds.

When timber is sold under such circumstances, there is seldom any desire on the part of the landowner to put a portion of the proceeds back into reforestation. Also, selling the land breaks up family farms and timber holdings and may force subdivision of forested tracts into parcels too small for economic management. This could be devestating to the nation's future timber supply.

Finally, estate taxes on timber assests greatly reduces the rate of return a landowner receives on his investment. Low rates of return on timber investments simply mean that the landowner chooses to invest his capital in more lucrative alternatives. Levying estates taxes several times during the life of a timber stand make the rate of return so low that, upon analysis, most landowners choose a more liquid investment with a more attractive return.

Summary

Mr. Chairman, many believe that the estate and gift tax is justified by the assumption that the rate of savings is not affected by such a tax. While we cannot speak for other segments of the economy, we know that this is not true for forestry. A key motive for many persons underlying savings and investments in forest management is the desire to pass an estate on to one's heirs and beneficiaries. There is strong empricial evidence indicating that the great majority of accumulated wealth in the U.S. is transferred from generation to generation.

Thus most savings are eventually conveyed to others; it is not consumed during the saver's lifetime. As we have pointed out, is particulary true with forest investments. With over half of the private forest landowners over the age of 55, their decisions on whether or not to save and reinvest in forestry will be strongly influenced by the estate and gift tax provisions. And these decisions will in turn have a dramatic impact on the long-term timber supply for the nation.

We recognize that, given the pressures of the federal deficit, elimination of or further improvements in the estate and gift tax are unlikely. However, we urge the committee not to further burden forestry with either increased taxes or delays in implementing the phased-in reductions in the estate and gift tax rates.

We appreciate the opportunity to testify and will try and answer any questions you may have.

TRUSTS AND ESTATES LAW SECTION
EXECUTIVE COMMITTEE
1987-1988
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Chairperson
3400 Marine Midland Center
Buffalo, NY 14203
716/847-7092

New York State Bar Association®

August 21, 1987

Honorable Lloyd Bentsen
Chairman, Senate Finance Committee
703 Hart Senate Office Building
Washington, D.C. 20510

Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Gentlemen:

The American College of Probate Counsel has recently submitted to you a position paper concerning the Revenue Options pamphlet prepared for the Committee on Ways and Means dated June 25, 1987.

On behalf of the Trusts and Estates Law Section of the New York State Bar Association I would like to indorse the conclusions of the ACPC position paper.

We are particularly concerned that hasty tax legislation could inject unnecessary turmoil into the estate planning process and could upset many important and well established concepts without necessarily producing the desired revenue.

Very truly yours,

Arthur M. Sherwood

Arthur M. Sherwood
Chairperson

NYSBA®

Committee On Ways and Means
1102 Longworth HOB
Washington, D. C. 20515-6348

August 22, 1987

Att: Mr. Dan Rostenkowski, Chairman

A Kiplinger Tax Letter (August 7) had a paragraph re tax proposals which upset me very much. It says, "What you can expect once Congress returns in September: Changing how heirs are taxed on property they sell ....requiring that they figure gain using decedent's cost, not value at death, as their cost."

This was enacted once before but had to make an about-face due to squawks.

I want you to see how this hurts those in older homes acquired years ago, and those who built homes from scratch doing a large percentage of their own work, like I did in 1959 to save costs.

I had my home built in 1959 as basic as possible....no sidewalks, no driveway, no paint either exterior or interior, no lawn, no trees, no shrubs. Thus I paid contractor $11,400 to build. With lot value of $4500 the cost basis then was $15,900. The improvements (new furnace, roof, water heater, wiring, plumbing, drapes, shelving, driveway, etc.) would add approximately $10,000.

Thus, if I died and my heir then sold my home for $45,000, a gain of near $20,000 would be taxed as ordinary income....an exorbitant tax for one over 65. Now I see how we elderly must sell before we die to take advantage of the one-time exclusion of $125,000 in order to avoid this unjust tax.

This would be a most unfair tax, taxing us on dollars we never gained, yet inflation did cause us to pay increased property tax each year. Apartment dwellers don't get "hit" so why the homeowner?

If this tax passes, you will have to make an exception for these 'older home' people, or elderly, as our homes are our main investment over the years, to move to needy 'kin' should we die before we can sell.

The yearly buyer and seller of homes, as investments, is not so hurt by this suggested tax, as his valuation remains relatively same.

Why even allow the $125,000 exclusion (one-time) for those 65 and over if now you would plan to tax the heir on basis of cost (not value at death) should they sell?

Please consider the proposal as most unfair, or amend it for the long-time homeowner. Who would even know the decedent's cost basis after 30 years?

Sincerely, Lyn J. Steffen
L. J. Steffen
1712 N. Meade
Appleton, WI 54911

TRUST
Financial Services Division
Texas Bankers Association

203 West 10th St
Austin, Texas
78701

512 472-7391

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First RepublicBank Corporation
Dallas

July 10, 1987

Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

The Texas Bankers Association Trust Financial Services Division is submitting these comments on the impact of the "Repeal of the 'Stepped-up Basis' Rule" revenue option. The Association represents more than 300 bank trust departments that offer fiduciary services in the Southwest.

Carryover basis became law in 1976 and was repealed in 1980 because Congress recognized that it does not and cannot be made to work. Carryover basis is a tax on unrealized capital gains at death. While it may have conceptual appeal, it has a fatal flaw: it depends on accurate records of when an asset was acquired and for how much. The problem is that people do not always keep records. Let's look at three examples presented in 1979 testimony to the Ways and Means Committee:

1. One bank reported that in approximately 99% of its estates, no basis could be located for chattels;
2. A Philadelphia lawyer reported of a case with 1,700 items valued at $4.7 million and after four months of effort to ascertain basis, he still did not know the basis of three-quarters of the items; and
3. One Mississippi bank referred to an estate valued at $216,000 of which $171,500 was attributed to 6,533 shares in a corporation. The decedent inherited 7 shares from her husband's estate and later the stock changed as a result of 11 stock dividends, 11 sales, 4 stock splits and 5 mergers or acquisitions. The bank was unable to determine the cost basis of the stock.

In addition to the difficulty of proving basis, there is the complexity of carryover rules. Under the 1976 law, several complex adjustments to basis were required to take into account federal estate taxes. Sometimes years pass before these are finally determined. As a result, income tax returns reporting sales of inherited property filed by heirs prior to the final determination of the death tax liability would have to be reopened and the tax recomputed. With carryover basis, amended income tax returns and refund claims would be common.

The third reason to oppose carryover basis is the resulting excessive taxation on estates when the estate tax, the estate income tax, and a second income tax on gains are combined resulting in severe liquidity problems.

In summary, carryover basis should be avoided because it does not work. It is difficult to prove basis; carryover basis is too complex; and the result is excessive taxation.

We appreciate the opportunity to comment on this revenue option. We urge the Committee to oppose its implementation.

Sincerely,

Scott Blech

Scott A. Blech
Executive Director

SAB/kt

copy: The Honorable J. J. Pickle
The Honorable Bill Archer

WASHINGTON
WOMEN FOR THE
SURVIVAL OF
AGRICULTURE

Route 2, Box 2461
Zillah, Washington 98953
Phone (509) 829-5185

July 18, 1987

Committee on Ways and Means
United States House of Representatives
Washington, D. C. 20515

Dear Chairman Rostenkowski,

This letter is in response to the proposed tax increases that are included in the pamphlet published by your committee June 25, 1987. I am particularly interested in the proposed changes in the Federal Estate Tax Laws.

The proposal outlined in the pamphlet of tax increases as it relates to estate taxes are quite shocking to our organization. They will undo the changes we worked so hard to make in the 1981 tax revisions. Changes that were long overdue in a unfair and repressive tax law.

From 1976 to 1980 our group joined with many others representing farmers and small businessmen to try to convince Congress to revise these laws that were so unfair to the family farm or business. It is 'of course with great distress that we find Congress considering undoing the good that they did in the 1981 tax revisions.

The proposal to charge capital gains on property at death of the owner is devastating to the farmers and small businessmen dependent on ownership of property, now highly inflated, for their living. Doing away with the carry over basis is just as unfair. We would see massive losses of these properties by small family enterprises if either were instituted. Especially the family farm is dependent on this ownership for the living of perhaps three generations at a time from the one unit of property. This makes it most unfair to tax one person of this family unit at the capital gain rate when he dies.

We urge you to not change the capital gains provision in the estate tax, or to lower the present $600,000 credit now allowed for estates. Either or both would prove detrimental to the economy in the long run.

Sincerely,

Janet B. Allison

Janet B. Allison
Government Relations Chairman

Wind O' Hill Farm
MR. & MRS. RICHARD T. BRIGHAM
MEETING HOUSE RD. R.D. 5 WEST CHESTER, PA. 19380
PHONE 215 793 1333 OR 215 793 [illegible]

August 31, 1987

The Honorable Dan Rostenkowski, Chairman
Ways & Means Committee
House of Representatives
Washington, DC 20515

Dear Congressman Rostenkowski:

I am strongly opposed to any increase in the gift and estate tax rates, any reduction in the unified transfer tax credit, or any imposition of capital gains taxes at death. I was dismayed to see these options outlined for Congressional consideration by the Staff of the Joint Committee on Taxation. The new generation skipping tax has already effectively increased death taxes several times over. Additional taxes will only discourage capital formation and economic growth. I much prefer reduced spending by the Federal Government.

Imposing a capital gains tax at death, or eliminating a step-up in basis, is just another way to increase death taxes. If additional tax had to be paid at death, small business owners and farmers would suffer liquidity problems. If the old basis were carried over, many people would never sell the assets. Further, many will find it impossible to maintain accurate cost basis information.

Increasing these taxes, which are already too high, will adversely effect capital formation which is a critical need if this country is to compete in world markets. Why should I save money to pass on to my children and grandchildren if the government is goin to take 50% to 75% of it on my death? The clear message I am getting from Congress is that I should spend my money, not save it for my heirs.

I urge you to resist the temptation to increase death taxes. To do so would hurt the enire economy. Such hogh transfer taxes are totally inconsistent with an economic system which promotes individual enterprise and initiative. Congress should reduce or repeal these taxes altogether, not increase them. What is my motivation to create value in our economy if the Federal Goverment will take more than half of it when I die?

Very truly yours

Richard T. Brigham

Richard T. Brigham

Copies to: The Honorable Richard Schulze
The Honorable William J. Coyne

TAX-EXEMPT ORGANIZATIONS - UBIT ON CERTAIN TRADE ASSOCIATION INCOME

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August 19, 1987

Hon. Dan Rostenkowski
House of Representatives
Washington, D.C. 20515

RE: Opposition to Taxation of Association Investment Income.

Dear Congressman Rostenkowski:

I was very troubled to learn that the oversight Subcommittee of the House Committee on Ways and Means in considering amendments that would result in the federal income taxation of the passive income of tax-exempt associations.

The members of our association strongly oppose these proposals. While our investments and investment income are small, having to pay taxes and deal with all the necessary record keeping and reporting would sincerely threaten the very nature of our organization.

I hope you will reject initiatives to impose taxes on the passive income of tax exempt organizations. Thank you for your attention to our concerns.

Sincerely,

Warren Leiden
Executive Director

WL/dh
cc: James J. Albertine
Director of Government Affairs
American Society of Association Executives

The American Society of Mechanical Engineers

David L. Belden, Ph.D., P.E.
Executive Director
212-705-7730

345 East 47th Street
New York, NY 10017

July 21, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As the Committee on Ways and Means considers options to increase federal revenues as called for in the fiscal year 1988 budget resolution, we strongly urge you to oppose tax revisions that would impose yet additional burdens on nonprofit organizations. We request that this letter be made part of the record of hearings held by the Committee on revenue raising options on July 8, 9 and 15, 1987.

We particularly object to the proposal for an excise tax on the investment income of nonprofit organizations. The imposition of an excise tax on investment income would penalize those organizations which, through prudent management and economic necessity, have built reserve or emergency funds. In the case of the American Society of Mechanical Engineers, our reserve fund has largely been built for two reasons: 1. Because there is no liability insurance available to cover our public service activity to provide voluntary safety standards for government and industry; and 2. The investment income subsidizes our programs to further the organization's nonprofit educational and scientific purposes.

It is important to note that investment income of nonprofits was initially exempted from the unrelated business income tax because Congress concluded that such income did not present problems of competition with business. Last month, the U.S. Department of Treasury told the Ways and Means Oversight Subcommittee that investment income should continue to be exempt from taxation because the income is used to support the exempt purposes of the organizations, and helps exempt organizations to avoid commercial initiatives.

The nonprofit sector was recently hit hard by the Tax Reform Act of 1986 through lowering incentives for charitable contributions. While we agree that all groups in our society must share the burden for deficit reduction, many nonprofits are still trying to catch up with the new challenges created by cuts in government funding and tax reform.

These on-going developments make it paramount that yet another series of burdens are not placed on the nonprofit sector. An excise tax on the investment income of nonprofits is clearly contrary to the underlying concept of tax-free organizations. We hope you agree that nonprofit organizations play a crucial and fundamental role in American society, and we strongly urge you to reject proposals such as the excise tax which would further undermine the health of the nonprofit sector.

Sincerely,

David L. Belden

Independent Insurance Agents of Dade County, Inc.

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NANCY M. CLAY, Executive Vice President

August 19, 1987

Honorable Dan Rostenkowski
Chairman, House Ways & Means Comm.
2111 Rayburn House Office Bldg.
House of Representatives
Washington, D.C. 20515

Dear Rep. Rostenkowski:

Please do make any UBIT changes until after the Oversight Committee has made its full report. I believe that any projected gain in revenue is not really there. In addition, this association would probably have to scale back its activities which would, in turn, place an additional burden on the federal government .

Associations such as ours promote general business conditions and tapping our resources would curtail this function. We rely on our investment income to assist in carrying out many of the educational programs which we are now able to provide for our members. This results in a benefit to the public by making members better business persons and better informed professionals.

Sincerely,

Nancy M. Clay

Nancy M. Clay
Executive Vice President

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August 3, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways & Means Committee
2111 Rayburn House Office Building
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Those of us who have chosen a career in association management are extremely concerned about the proposals of the Joint Committee on Taxation which would apply the unrelated business income tax to certain types of income of trade associations and other tax-exempt organizations.

Representatives of the association industry testified before the House Ways & Means Oversight Subcommittee last week, so I won't reiterate our extensive opposition to the proposals in this letter. My immediate concern is that the House Ways & Means Committee, in its zeal for finding new sources of revenue, might make inappropriate or ill-considered changes in the applicability of the unrelated business income tax.

The Oversight Committee has conducted an extensive review of the statute, and I urge you to exercise your considerable influence to insure that the findings and recommendations of that subcommittee are given full consideration before the Committee takes further action on this issue.

Sincerely,

Shirley J. Boykin
President/CEO

SJB/tcs

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RUTH REED

August 4, 1987

Honorable Dan Rosentenkowski
Chairman, House Ways & Means Committee
2111 Rayburn House Office Building
House of Representatives
Washington, D.C. 20515

Dear Representative Rosentenkowski:

The Miami Board of Realtors, a sixty-seven year old trade association comprised of 5,600 members, relies very heavily on its' investment income to fund its' activities.

Since the inception of the tax statute, investment income of most tax except organizations has been exempt from taxation. This exemption assists most organizations in performing their functions and lessens the burden from Government that otherwise would have to be financed out of tax revenues.

Any imposition of a tax on these funds would reduce the income available to our Association in carrying out our non-profit activities.

Your vote against this new taxation would greatly assist us in promoting general business conditions.

Sincerely,

Betty Strickland

Betty Strickland
Executive Vice President

BS:rb

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6

OHIO STATE BAR ASSOCIATION

August 4, 1987

Honorable Dan Rostenkowski
2111 Rayburn House Ofc. Bldg.
House of Representatives
Washington, D.C. 20515

Dear Mr. Rostenkowski:

It has been brought to my attention that the House Ways and Means Committee has been considering changes in taxing unrelated business income of Associations and other nonprofit organizations. I understand that the Committee is considering a proposal which, if enacted, would tax the passive income (e.g. royalties, interest and dividends) of all tax-exempt organizations. I wish to voice strong objection to the proposal.

Since associations include passive income in their budgets, such income helps keep dues rates at the lowest possible level. If a tax were imposed on passive income, many associations would no doubt find it necessary to increase dues rates. Therefore, a tax on passive income of Associations would, sooner or later, translate into a tax on the members of those associations.

Most volunteer non profit organizations when they increase their dues rates, do so to a level such that a financial surplus will be generated during the first year, and, perhaps the second and third years after the increase. However, they plan to run a financial deficit for one-to-three years thereafter and use the surplus generated during the first few years to run the organization during such deficit periods.

I hope that, after consideration, the Committee decides not to impose a tax on passive income of associations.

Sincerely,

Joseph F. Cook

Joseph F. Cook, Esq.
President

cc: Joseph T. Svete, Esq.
Denny L. Ramey, CAE

33 West Eleventh Avenue Columbus, Ohio 43201 614/421-2121 Ohio Wats 800/282-6556

TAX-EXEMPT ORGANIZATIONS - EXCISE TAX ON NET INVESTMENT INCOME

VICE PRESIDENT FOR BUSINESS AND FINANCE
AGNES SCOTT COLLEGE
Decatur, Georgia 30030/(404) 371-6278

August 17, 1987

The Honorable Lloyd Bentsen, Chairman
Senate Finance Committee
703 Senate Hart Office Building
Washington, DC 20510

The Honorable Daniel Rostenkowski, Chairman
House Ways and Means Committee
2111 Raburn House Office Building
Washington, DC 20515

The Honorable Edgar Jenkins
House Ways and Means Committee
203 Cannon House Office Building
Washington, DC 20515

Gentlemen:

I am writing in support of the letter of July 13, 1987 from Mr. Sheldon Steinbach of the American Council on Education to the Honorable Dan Rostenkowski, Chairman of the Committee on Ways and Means concerning the potential tax on investment income from endowments of tax exempt organizations.

Agnes Scott College is a small private, liberal arts college for women located in metropolitan Atlanta, Georgia. Our endowment is the chief means of steady and ongoing support for providing a liberal arts education to women from across the United States and, indeed, internationally.

We find the proposed redefinition of tax exemption, as we currently understand the proposals, to be fundamentally inconsistent with the principles on which the exemption was originally drafted. We provide educational resources as a direct alternative to public tax supported education and find it incredible that the funds raised from this proposed "excise" tax might very well be appropriated back for educational purposes to public institutions as well as private ones. Therefore, we would be in the peculiar position of being a private college taxed to support public colleges. I hope you can see that this outcome is inconsistent with nearly 300 years of educational history in the United States. Mr. Steinbach's letter to you contains other eloquent and winning arguments against this proposed tax, and I hope that you will find them compelling.

I urge, in the strongest terms possible, for you to reject any changes in the tax law that would impose any taxation on the net investment income of tax exempt organizations.

Thank you for your considerations.

Sincerely,

Gerald O. Whittington
Vice President for Business and Finance

STATEMENT ON THE PROPOSED FIVE PERCENT TAX ON INVESTMENT INCOME OF TAX-EXEMPT ORGANIZATIONS

BY THE

AMERICAN COUNCIL ON EDUCATION

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ON BEHALF OF:

American Association of Community and Junior Colleges
American Association of State Colleges and Universities
Association of American Medical Colleges
Association of American Universities
Association of Catholic Colleges and Universities
Association of Jesuit Colleges and Universities
Association of Urban Universities
Council of Independent Colleges
National Association of College and University Business Officers
National Association for Equal Opportunity in Higher Education
National Association of Independent Colleges and Universities
National Association of Schools and Colleges of the United Methodist Church
National Association of State Universities and Land-Grant Colleges

JULY 15, 1987

The American Council on Education, which represents over 1,500 colleges and universities, and the individual higher education associations listed on the cover sheet, strongly oppose the revenue option that would impose a five percent excise tax on the net investment income of tax-exempt organizations. This proposal would tax the income from endowments, established solely to support the tax-exempt purposes of education and research, of hundreds of colleges and universities, public and private, large and small. We request that this letter be included in the hearing record relating to revenue raising options for H Con Res 93.

This proposal was advanced for the first time in the pamphlet recently issued by the staff of the House Ways and Means Committee and the Joint Committee on Taxation. The pamphlet suggests that this tax would have a "limited impact on the activities of exempt organizations." At least as applied to institutions of higher education, however, the proposed tax would have a substantial adverse impact.

This tax would effectively terminate the exemption from federal income tax for the vast majority of tax-exempt institutions that have investment income, and replace it with an income tax based on the amount of their investment income. For financially weaker institutions, the proposed tax could result in a larger tax liability than would the application of the corporate income tax (where investment income would offset operation losses and there would be no "net income").

This tax also would be inconsistent with the concept of tax exemption. It is only justified in the staff pamphlet on the grounds of raising revenues. It therefore is not fundamentally different from a tax on tuition or charitable contributions, which are not taxed under present law because these sources of funds, like investment income, are provided for and directly support the exempt purposes of these institutions.

Virtually all institutions of higher education have investment income that provides support for their operations and therefore would have tax liability under this proposal. Unlike for-profit entities, public and private colleges and universities do not have investors to whom they could reduce the distribution of profits in order to pay the proposed tax. In addition, in recent years government has transferred greater responsibilities to higher education while at the same time reducing the resources available to meet these responsibilities. The combined effect of these facts is that the imposition of this tax would reduce directly the resources available to support their mission. For some schools, it would equal the amount of institutional funds used for scholarships. At other schools, the proposed tax would equal the cost of operating any of several entire major academic programs, such as the departments of physics, engineering, or history.

In addition, this tax would frustrate Congressional efforts to improve the competitiveness of our economy. Colleges and universities have developed into responsive instruments for pursuing national objectives. The tax would withdraw funds from these institutions at the same time that Congress is attempting to increase their funding for biomedical research, research related to national security, and need-based student assistance. We believe that colleges and universities can best contribute to deficit reduction by providing a sound foundation of economic growth through the creation and dissemination of new knowledge.

This major change in the treatment of public and private colleges and universities is not supported by the only argument advanced in its favor in the staff pamphlet: that exempt organizations should "not be immune from sharing some of the costs of government." As applied to colleges and universities, the pamphlet correctly recognizes that these institutions already share the costs of government. They are either units of government, or they are institutions that are tax-exempt because they relieve government of the burdens of meeting public needs by enlisting private funds for public benefit and by performing activities that government otherwise would be called upon to perform.

This proposed tax on public institutions and public charities is not supported by the reason for the two percent tax on private foundations that is discussed in the staff pamphlet. Additional audit fees for exempt organizations would not seem to be needed since this tax already generates revenues that are six times the budget of the entire exempt organization division of the IRS.

The proposed tax also is not supported by the policies underlying the unrelated business income tax (UBIT). When Congress enacted the UBIT law in 1950, it exempted investment income from the tax because it concluded that investment income did not present problems of competition with business. Last month, in testimony before the Ways and Means Oversight Subcommittee, the Treasury recommended that investment income continue to be totally tax exempt because: the income is used to support the exempt purposes of the organization; it does not present problems of unfair competition; and it encourages exempt organizations to avoid commercial involvments.

In addition to this new proposal, the staff pamphlet restates proposals, previously considered and rejected by Congress, that would substantially reduce the benefits of our tax-exempt status by reducing the amount of charitable contributions. We strongly urge that Congress again reject changes in the tax law that would discourage charitable giving and thus reduce the ability of higher education to perform its important mission.

We thank you for your consideration of our views on this issue of utmost importance to our institutions of higher education.

American Hospital Association

AHA

Capitol Place, Building #3
50 F Street, N.W.
Suite 1100
Washington, D.C. 20001
Telephone 202.638-1100
Cable Address: Amerhosp

STATEMENT OF THE
AMERICAN HOSPITAL ASSOCIATION
BEFORE THE
COMMITTEE ON WAYS AND MEANS
OF THE
U.S. HOUSE OF REPRESENTATIVES
ON
FY 1988 REVENUE OPTIONS

JULY 15, 1987

SUMMARY

The American Hospital Association strongly opposes the proposal to impose a five percent excise tax on the net investment income of tax-exempt organizations, including not-for-profit hospitals and other health care facilities. Arguments put forth in support of this proposal suggest that this tax would have a "limited impact on the activities of exempt organizations." Quite simply, this is not true. As applied to not-for-profit health care providers, the proposed tax would have a substantial adverse impact. This tax would terminate tax-exempt hospitals' federal income tax exemption by imposing an income tax based on the amount of their investment income. Many institutions that are at risk financially have investment income but no "net income" because investment income is used to offset operating losses. For these hospitals, the proposed tax would result in a larger tax liability than would the denial of exempt status and corresponding application of the corporate income tax. The result is an unintended, undesirable attack on the concept of tax exemption for charitable institutions, and totally at odds with current policy.

INTRODUCTION

The American Hospital Association (AHA), representing more 5,600 institutional members and 40,000 personal, appreciates this opportunity to assess the impact on hospitals of the proposed excise tax on tax-exempt organizations' net investment income.

TAX-EXEMPT HOSPITALS SERVE A PUBLIC PURPOSE

In recent years federal, state, and local governments have transferred greater responsibilities to not-for-profit health care providers while reducing resources available to meet these responsibilities. The AHA's members, 85 percent of which are tax-exempt, provide services to more than 10 million Medicare beneficiaries, at government-set payment rates that often fail to cover costs. Nonetheless, tax-exempt hospitals continue offering services that government otherwise would be asked to provide.

In the last decade, the number of people below the federal poverty line has increased, while the number of Medicaid recipients has declined dramatically. Medicaid now covers only 38 percent of the poor, down from 65 percent 10 years ago. State and local governments have taken up little of the slack in caring for the medically indigent. As a result, about 37 million people--mostly poor or near-poor--are uninsured and at significant risk of requiring medical services for which they cannot pay. For these Americans and an additional 20 million "underinsured" Americans, local hospitals--not government--have had to create the medical care safety net.

In 1985, uncompensated care cost hospitals $7.4 billion, up from $3.5 billion in 1980. Although local tax appropriations to hospitals were able to cover some of this, $6.3 billion in 1985 medical care costs were truly unsponsored. Tax-exempt hospitals absorbed 75 percent of these costs.

Hospitals have continued to provide this safety net at a time of shrinking resources. The cost of providing hospital care in 1987 is expected to be 13 percent higher than in 1984. However, Medicare prices have increased only 5.6 percent during that same period. Recent data from the Health Care Financing Administration (HCFA) show that in 1984 and 1985, 20 percent of hospitals lost money on Medicare inpatient business, which accounts for 45 percent of hospital revenue on average. New HCFA data demonstrate that even with a 1.5 percent increase in Medicare prices, approximately 40 percent of all hospitals will lose money on Medicare inpatient business in FY 1988. And government is not alone in seeking to reduce health costs. In an increasingly competitive and price-driven environment, private payer and other sources of hospital revenue are also being squeezed.

The effects of increased competition in the health care industry and increased cost-containment efforts in the public and private sectors, combined with the imposition of this tax would reduce directly resources available to hospitals to support their health care missions. Along with providing health care to those who cannot pay, hospitals also provide numerous unremunerative services including, specialized treatment, medical education and research, community education programs, and health screening services.

In 1985, more than 3,000 nongovernment, not-for-profit hospitals had non-operating income that provided support for their operations and, therefore, would have tax liability under this proposal. Unlike for-profit entities, which can reduce the distribution of profits to investors to pay a proposed tax, not-for-profit health care providers may be forced to reduce services to make up revenue lost through taxation. Funds to pay the tax would have to be diverted from supplementing operating income, subsidizing necessary but unprofitable services, or offseting the losses caused by nonpayment or underpayment for services.

This major change in the treatment of not-for-profit health care providers is not supported by the only argument advanced in its favor in the Joint Committee on Taxation staff pamphlet: that exempt organizations should "not be immune for sharing some of the costs of government." As applied to not-for-profit health care providers, the pamphlet correctly recognizes that these institutions already share the costs of government. Hospitals are tax-exempt because they fulfill a "charitable" purpose, relieving government of the burdens of meeting public needs by enlisting private funds for public benefit and by performing activities that government otherwise would be called upon to perform.

THE PROPOSED EXCISE TAX IS NOT SOUND POLICY

The proposal is unclear in its definition of "investment income," stating that it includes interest and dividends. Two major problems arise if the definition of investment income in the option is meant to be exclusive. First, there is a conceptual ambiguity since a dividend by definition is an after-tax distribution and, therefore, already has contributed to the costs of government.

Second, this definition is at odds with the statutory definition of "passive" income exempt from unrelated business income tax, which includes dividends, interest, most rents, annuities, capital gains and losses, and royalties. This income is exempt from taxation because Congress believed, and has not altered its view, that these are proper sources of revenue for charitable organizations and are unlikely to result in unfair competition. On other occasions where Congress has thought it necessary to make changes in tax policy, such as in treatment of unrelated debt-financed income, it has done so directly. Such a fundamental and far-reaching change in tax policy as the proposed excise tax should not be made at all, but particularly not for the sole reason of raising revenue and without debate and consideration on the merits.

The Department of the Treasury recently recommended that passive income continue to be totally tax-exempt because the income is used to support the exempt purposes of the organization; it does not present problems of unfair competition; and it encourages exempt organizations to avoid commercial involvements. In addition, the Treasury Department made an important point regarding the tax policy provisions at issue. It said there is a serious lack of useful data on "active" and passive income and their impact on operations of charitable institutions. Treasury urged, and we agree, that debate on possible changes in tax policy occur after adequate information is available.

The proposed tax on public charities and public institutions is not supported by the reason put forth linking it to the 2 percent tax on private foundations that it is a "user" fee. The existing tax already generates revenues that are six times the budget of the entire exempt organization division of the Internal Revenue Service, and this revenue obviates the need for additional fees to fulfill the stated purpose.

CONCLUSION

The AHA opposes the proposal to impose a 5 percent excise tax on net investment income of tax-exempt organizations. If enacted, the tax would further shrink the already diminishing resources available to tax-exempt hospitals and limit their ability to continue to provide health care for all Americans.

President

AQUINAS COLLEGE

July 22, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I write to state my strong opposition to the revenue option that would impose a five percent excise tax on the net investment income and endowments of tax-exempt organizations, including public and private colleges.

As Congressman Williams stated in his testimony before the Committee, this proposal would tax the income from endowments, established solely to support the tax-exempt purposes of education and research, of hundreds of colleges and universities, public and private, large and small. For colleges and universities, an endowment is a unique means of supporting essential educational and research activities, as well as serving as a stabilizing buffer for the institution. For private colleges, without substantial state funding, an endowment makes it possible to charge students less than the cost of their education and to provide the supplementary financial aid that reductions in federal financial aid have made necessary.

Colleges and universities have already absorbed a substantial portion of the deficit reduction efforts. Reductions in federal student financial assistance funds, coupled with the rising costs of education, have resulted in a dramatic increase in the amount of institutional funds which are devoted to student scholarships. Between 1981-82 and 1985-86 these funds rose from $900 million to $3 billion, an increase of 233 percent!

The argument that exempt organizations "should not be immune from sharing some of the costs of the government" is insupportable. Tax-exempt colleges and universities share the costs of government by relieving the government of the full cost of educating its citizenry and by performing activities that government otherwise would be called upon to perform.

A tax on investment or endowment income would set a dangerous precedent for future legislation in the charitable area and would limit the ability of educational institutions to cushion the impact of increased operating costs and reduced federal funding for student aid and other programs. It would affect the quality of education generally, and it would affect students needing financial aid disproportionately.

I appreciate your consideration of these views and urge you to consider again the very strong statements by Congressman Williams regarding this proposal.

Sincerely,

Peter D. O'Connor
President

GRAND RAPIDS, MICHIGAN 49506 · (616) 459-8281

ArtCenter

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6711486ARTCE UW
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818 405 9104

The Honorable Daniel Rostenkowski
Chairman
House Ways and Means Committee
U.S. House of Representatives
2111 Rayburn House Office Building
Washington, D.C. 20515

4 August 1987

Dear Mr. Rostenkowski:

It has come to my attention that tax-writing committees in the Congress are currently considering a proposal which would impose a 5 per cent tax on the net investment income of charitable institutions. Endowment income is a critical part of our operating budget - a tax of even the proposed 5 per cent on net earnings would have a severe negative effect upon the combined funds which we allocate to the educational process here at Art Center College of Design. Moreover, we have just begun a campaign to increase our endowment by several million dollars. To have a tax imposed on earnings of future endowment funds raised is to sacrifice, before we start, a part of the purpose for which gift dollars are sought. The proposed tax, it seems to me, would not only have a deleterious effect upon investment income of independent colleges; it would also set a dangerous precedent for future legislation affecting charitable organizations.

I sympathize with the Congress' concern to find new sources of financing for those programs which are designed to enhance the national commonwealth. But we in private higher education are making our contribution according to tradition and in accordance with the encouragement of those who first drafted the tax laws of our country. I earnestly request that you and your colleagues do everything possible to protect our non-profit status and to preserve the validity of the term "tax-exempt" in all senses of what that means to us and to independent higher education.

Sincerely,

David R. Brown
President

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The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
2111 Rayburn House Office Building
Washington, D.C. 20515

31 July 1987

Dear Mr. Rostenkowski:

Personally, and on behalf of my colleagues in Development at Art Center College of Design in Pasadena, California, I am writing to urge you to reject a tax revenue plan which we understand is under consideration by the tax-writing committees of the Congress. A tax on investment yields of independent organizations would have a profound negative impact on current endowment earnings as well as on fund-raising for new endowment. Donors and prospective donors to charitable institutions have come to expect their gifts to endowment will produce, in perpetuity, the entire amount of earnings in support of general or specific educational programs and projects. To reduce the earnings, by taxation or for any other reason, is not only to lessen an endowment's fiscal effectiveness; it is to corrode the element of good faith between donor and institution which we have taken generations to build.

In recognition of the above stated rationale, and in keeping with historic tradition in preserving tax exemption for charitable organizations, may I respectfully request that you vote against any prospective legislation which would impose a tax on investment or endowment earnings for non-profits and that you encourage your colleagues to do likewise.

Sincerely,

Warren B Knox

Warren B. Knox
Senior Vice President

The Chicago Lighthouse for the Blind

1850 West Roosevelt Rd.
Chicago, Illinois 60608
Telephone (312) 666-1331

August 11, 1987

Congressman Dan Rostenkowski
Chairman, Committee on Ways and Means
1102 Longworth Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

On behalf of the Chicago Lighthouse for the Blind Board of Directors, Blind Service Consumers, Management, and staff, I am writing to relate some of our concerns regarding the proposals evolving from your Ways and Means Committee on the issues of the Unrelated Business Income Tax (UBIT).

As you may be aware, the Chicago Lighthouse for the Blind has provided rehabilitation and independent living services for blind and visually impaired citizens in the Chicago metropolitan area and State of Illinois since 1906. We deliver thirteen programs to blind/visually impaired persons from birth to senior years. Our programs include evaluation, training, employment, education, and rehabilitative efforts. We provide training on high tech computers with Braille, large print, and synthetic speech output, employment in a sheltered workshop for multi-handicapped blind persons, and we maintstream as many persons as achieveable into competitive employment in the community. We are nationally recognized for our job placement record, e.g., 103 blind and visually impaired persons in FY 1986-87.

I am enclosing an annual report and other materials to provide the scope of our services and programs.

Our organization is supportive of your committee's effort in strengthening the Unrelated Business Income Tax (UBIT) law and eliminating abuses. We are, however, alarmed that many other initiatives are being considered that along with the withdrawal of Federal support in recent months continues to emasculate and errode traditional community non-profit service programs. The proposed 5% excise tax on nonprofit investment income and endowments is really one of the most distressing proposals under consideration. It is difficult to understand how our Federal Government can seek to balance the federal budget and pursue deficit reduction through attaching funds of non-profits through a tax on funds which have been contributed by taxpayers to support causes of their designation.

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Mrs. Robert H. Wilson

Executive Director
Milton J. Samuelson, ACSW

Since 1906, serving blind, visually impaired and multi-handicapped persons

The Chicago Lighthouse for the Blind also operates a sheltered workshop program for multiple handicapped blind and visually impaired persons, who cannot be mainstreamed into the community. We produce battery cables and air-brake hoses for a major west coast coporation, hand care products for a local company, and under the Javits-Wagner-O'Day Act we produce quartz battery operated wall clocks for the General Services Administration. (I hope you have them in your offices) All our blind workers receive $3.50 per hour guarantee or piece rate, whichever is better on general subcontracts and $6.00 per hour on the clock and truck products line. In addition, all workers receive a full fringe benefit package and receive services as needed.

Our organization takes strong exception to the proposal that has apparently been fostered by the Office of Advocacy and the Small Business Administration which recommends that a "Cap" be placed on the amount of revenue a non-profit organization can recieve from the sale of products or services.

Of major concern to the Chicago Lighthouse for the Blind is the possibly unintended but devastating impact that could be caused to sheltered workshops for the blind and other severely handicapped and the populations they serve through a "cap". The potential service reduction to blind and other severely handicapped persons by such regulation is incalculable.

While we are congnizant that abuses of UBIT may be occuring in some non-profits, we are urging that your committees consider segmenting sheltered workshops for special study and in particular those that are producing goods and services under the Javits-Wagner-O'Day Program, e.g., associated with National Industries for the Blind and National Industries for the Severely Handicapped.

In summary, there is concern that the Chicago Lighthouse for the Blind and other similar organizations in association with National Industries for the Blind throughout the United States may, through new legislation be punished unjustly and limit the scope of our mission and services if lumped with other types of non-profits.

Relative to the oversight of our 501(C)(3) organizations (National Industries for the Blind and National Industries for the Severely Handicapped) and associated sheltered workshops, we believe that the existing laws are equitable and enforceable. The Unrelated Business Income Tax law, which became a part of the Internal Revenue Code in 1950, already adequately addresses the problem of unfair competition between non-profit and for profit organizations. It would appear that the most appropriate rememdy to the UBIT issue would be enforcement and oversight of these regulations.

Our Board of Directors, more than 200 visually impaired citizens we serve daily, and our staff of 120 will continue to be actively aware of these issues as they develop through your committee. As a Congressional Representative for the State of Illinois, I would respectfully request to be placed on information mailing lists from your office so that we can remain appraised and proactive in responding to negative issues surrounding the Unrelated Business Income Tax issue.

Thank you for considering this information.

Sincerely,

Milton J. Samuelson

Milton J. Samuelson
Executive Director

MJS/jn

Encls.

P.S. You or your staff are welcome, at any time to visit and tour the Chicago Lighthouse for the Blind. I will also be available to expand on any comments made within this letter.

[THE ENCLOSURES TO THIS STATEMENT ARE BEING RETAINED IN THE COMMITTEE FILES.]

JAMES R. DONNELLEY
2223 MARTIN LUTHER KING DRIVE
CHICAGO, ILLINOIS 60616

July 29, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20505

~~Dear Dan:~~

I'm deeply concerned over the efforts of Congress to put a five percent excise tax on the net investment income of tax-exempt organizations as part of Congress' revenue enhancement considerations.

For instance, Lake Forest College, one of the charitable boards on which I serve, would stand to lose some $100,000 per anum were such a tax imposed. In today's climate, an extra $100,000 is damn hard for a liberal arts college to raise. I feel that this loss could considerably affect the quality of its educational programs and the opportunity it offers its students. The funds cannot be made up through increased tuitions, for they are already high and are of course market sensitive. Our students, many of whom are from Illinois, would be the real losers.

I am not against raising taxes. Matter of fact, I believe a tax increase is vital to the health of our economy. I, for one, am willing to pay more. However, I believe our tax exempt institutions provide valuable services to our community and again urge that they be left alone.

Sincerely,

JRD/pf

EAST CAROLINA UNIVERSITY
GREENVILLE, NORTH CAROLINA 27834-4353

OFFICE OF THE CHANCELLOR

August 5, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U. S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

RE: PROPOSED EXCISE TAX ON NET INVESTMENT INCOME
OF TAX EXEMPT ORGANIZATIONS

Dear Mr. Chairman:

This letter is to voice our strong opposition to the revenue option, currently being considered by your committee, which would impose a five percent excise tax on the net investment income of tax-exempt organizations. This proposal would tax the endowment income which supports the tax-exempt purposes of education and research at hundreds of colleges and universities, including East Carolina University. The economic impact of such a tax to the academic programs at our University could be devastating.

A tax on the investment income of colleges and universities would be a radical departure from established tax policies and would be inconsistent with the concept of tax exemption. Such an excise tax would limit the ability of our university and other tax-exempt institutions to cushion the impact of increased operating costs and reduced federal funding for student aid and other educational programs. It would negatively affect the quality of education in reducing funds for faculty and student enrichment programs and further restrict already scarce sources of student financial aid.

In reducing funds for such academic programs, the proposed excise tax would leave tax-exempt organizations and Congress with only two unpalatable options: reduce academic enrichment programs and student financial aid, thereby diminishing the quality and availability of higher education, or seek increased federal funding. Our nation's future depends on quality education for our citizens and future leaders. To diminish the quality and availability of college education in the United States solely on the grounds of raising revenues is not sound tax policy nor is it in the best long-term interest of our country.

Page 2
The Honorable Dan Rostenkowski
August 5, 1987

Obviously, increasing federal funding for educational programs and financial aid to make up the shortfall caused by the proposed excise tax would be counterproductive to the legitimate purpose of reducing the federal budget deficit. Therefore, such increased government funding is not a realistic alternative to the dilemma tax-exempt organizations will face should the proposed tax be enacted. It then becomes abundantly clear that the end result of such a tax would result in a disproportionate reduction in the quality and availability of higher education and the numerous other services provided by charitable organizations for the public good.

We strongly urge that Congress reject the proposed excise tax on the investment income of tax-exempt organizations and that Congress again reject new proposals, previously considered and rejected by Congress, that would discourage charitable giving and reduce the ability of our University, other institutions of higher education and other tax-exempt organizations to perform their important missions. Thank you for considering our views on these issues of vital concern to East Carolina University and all U. S. colleges and universities.

Sincerely,

Richard R. Eakin

Richard R. Eakin
Chancellor

cc: Members of the committee

The Florida Association of Workers for the Blind, Inc.
601 Southwest Eighth Avenue Miami, Florida 33130 (305) 856-2288
(Federal Employer's I.D. #590637847)

LIGHTHOUSE

Vernon Metcalf, ACSW
Executive Director

July 24, 1987

Dan Rostenkowski, Chairman
Ways & Means Committee
1102 LHOB
Washington, D.C. 20515

Dear Chairman Rostenkowski:

We have just learned about some initiatives within the Ways & Means Committee to find new sources of taxes which will give us an added disadvantage in funding nonprofit organizations for the blind. For more than twenty-nine years I have been involved in the planning, funding and delivery of enabling services for blind persons of this country. For more than eleven years we have struggled to find nongovernmental funds so that the Miami Lighthouse for the Blind can addresss the unique needs of newly blinded persons in this complex community. The Board, staff, & volunteers of this agency have been unable to secure adequate funding to even serve the number of newly blinded persons accumulating in this community each year. Our waiting list grows. We have learned about the possibility of a 5% excise tax which is being considered within your committee to be placed upon nonprofit investment income and capital gains.

Since 1931 blind persons served by the Miami Lighthouse for the Blind, members of their family, Board members and other concerned citizens have established a small restricted fund for this agency. Only the income from that fund can be used for operation of program or for capital improvements. In some special instances these funds can be used for operating expenses. This year I'm expecting an operating deficit of at least $75,000. If a 5% excise tax is imposed upon this agency our deficit for the year could well exceed over $100,000. All of this while the agency is financially unable to expand services to meet the growing need and many newly blinded persons remain on our waiting list.

Our Rehabilitation Unit trains newly blinded persons for return to life in the sighted world with full functioning in the open community and on jobs. We trust that your considerable influence will be used to retain the current tax-exempt status of nonprofit investment income and capital gains.

Sincerely Yours,

Vernon Metcalf
Executive Director

Glastonbury
Bank&Trust

John H. Hamby, Jr.
President

July 22, 1987

The Honorable Dan Rostenkowski
Chairman-House Ways and Means Committee
U. S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rostenkowski:

The word is out that one of the possible revenue sources being considered by the House Ways and Means Committee is a tax on endowment revenue associated with nonprofit arts organizations. Having been involved with the Goodspeed Opera House, Albano Ballet Company, Hartford Symphony and other art groups, I can say with some conviction that what they don't need is a new tax. These and thousands of other art groups add so much to our quality of life and generally receive little, if any, financial support directly from government. Last year's tax reform probably will discourage some individual and corporate giving to these groups, although I don't believe we've had enough time to ascertain that for sure.

In any case, I think "going after the arts" is not an appropriate remedy to our national budget problems, and I hope that you will try to dissuade those who champion such taxation.

Very truly yours,

John H Hamby

JHH:jas

2461 Main Street, Glastonbury, Connecticut 06033   (203) 659-4021 or (203) 633-4695

HAVERFORD
Office of the President

August 14, 1987

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I just want to add my voice, to what I assume will be a large number of voices, to express deep concern about the proposal to create a five percent "excise" tax on net investment income of tax-exempt organizations. While I sympathize with some of the concerns of the federal government about income that tax-exempt organizations draw from active business enterprises, a tax on passive investment income is particularly harmful and inappropriate. Were this to be adopted, it would cost Haverford College $140,000 in its next year's budget. This could only be accepted either by cutting of vital programs (the equivalent of approximately four faculty members) or by an additional tuition increase of one percent.

I hope that this idea has no future. Surely there must be better ways to help balance the budget.

Sincerely,

Harry C. Payne
Acting President

HCP:rmw

cc: Robert J. Leonard
Chief Tax Counsel

Haverford College ■ Haverford, Pennsylvania 19041-1392 ■ 215-896-1020

Hollins College
Roanoke, Virginia
24020
(703) 362-6321

The President

July 29, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Hollins College, one of Virginia's leading liberal arts colleges, strongly opposes the revenue option that would impose a five percent excise tax on the net investment income of tax-exempt organizations. Our reasons for opposing such a tax are as follows:

- Colleges and universities would lose through taxation funds which support their important educational activities.
- Virtually all institutions of higher education (Hollins included) have investment income that supports educational operations. Thus, they would incur a tax liability under this proposal.
- Hollins is one of 1,316 private colleges and universities with an endowment fund, earnings on which would also be taxable. For colleges, an endowment is a unique means of supporting essential educational activities, as well as a stabilizing buffer to the institution. At Hollins, endowment income constitutes 12 percent of our approximately $14 million annual operating budget.
- Colleges and universities have already absorbed a substantial portion of the deficit reduction efforts. Reductions in student financial assistance funds coupled with rising costs of education, have resulted in a substantial increase in the amount of institutional funds devoted to student grants and scholarships. Between 1980-81 and 1985-86, institutional funds for need-based aid at Hollins rose from $388,714 to $902,615, an increase of 132 percent!
- This tax is, in essence, a fundamental and unprecedented redefinition of the basic principles of tax exemption, for it taxes the funds held by the tax exempt organization which would otherwise be used for its exempt activities.

Hollins thanks you for your consideration of our views on an issue which we consider most important to our institution.

Yours sincerely,

Paula P Brownlee

Paula P. Brownlee
President

Knox College
Office of the President
SESQUICENTENNIAL 1837•1987

July 27, 1987

Representative Dan Rostenkowski
Chairman, Ways and Means Committee
U.S. House of Representatives
2111 Rayburn Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski,

It was recently called to my attention that the Ways and Means Committee is currently considering the taxation of philanthropic foundations, including but not restricted to the endowments of colleges and universities. As president of an Illinois college, I am writing to urge the committee not to take such action.

Institutions of higher education have been under serious financial pressure for a decade. We have deferred replacement of important equipment and facilities, reduced the maintenance schedule on existing facilities, accepted real reductions in compensation for faculty and staff, and used an increasingly large share of our endowments to replace federal financial aid to needy students.

During the past five years, for example, the total federal aid to Knox's needy students has increased 1% per year; over the same five years our increase for financial aid to needy students from College funds -- largely from endowment and gifts -- has increased by 300%. More than seventy-five percent of our students qualify for aid.

Further reductions in our endowment incomes through taxation will simply reduce the quality of private higher education and private college support of needy, minority and disadvantaged students. In effect, the federal government would magnify the results of its own reductions in support of the poor, the needy and minorities by pressing private endowments to do the same thing.

To my knowledge the United States has been unique among the nations of the world in the degree to which its important social and educational programs are partly the preserve of the private sector. This fact has given character to our political system and has allowed us to avoid many of the pitfalls of social policy in other countries. It would be ironic, indeed, for a government, which has reduced the scope of its services, to now penalize those private institutions which have picked up so much of the burden. This proposed tax provision is a bad idea and deserves an early burial.

Most Sincerely,

John McCall

John P. McCall
President

Galesburg, IL 61401-4999 (309) 343-0112

LAKE
FOREST
COLLEGE

July 31, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C.   20505

Dear Mr. Chairman:

It is with a deep concern for the students of a College of which I am Chairman of the Board of Trustees that I write this letter, to urge you to support efforts to delete the concept of a five percent excise tax on the net investment income of tax-exempt organizations from your revenue enhancement considerations.

Lake Forest College would stand to lose some $100,000 per annum were such a tax imposed. This loss would considerably affect the quality of its educational programs and the opportunity it offers its students. The funds cannot be made up through increased tuitions, for they are already high and are of course market sensitive. Our students, so many of whom are from Illinois, would be the real losers.

It is obvious too that such a tax would adversely affect other religious and cultural organizations, in many of which the citizens of this State are understandably proud.

I urge your immediate effort to delete the concept

Sincerely,

Wesley M. Dixon, Jr.

WMD/srp

Board of Trustees
Wesley M. Dixon, Jr., Chairman

Sheridan and College Roads
Lake Forest, Illinois 60045
(312) 234-3100

James P. Gorter
4900 Sears Tower
Chicago, Illinois 60606

August 4, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20505

Dear Mr. Chairman:

I am writing to urge you to support efforts to delete the concept of a five percent excise tax on the net investment income of tax-exempt organizations from your revenue enhancement considerations.

Lake Forest College, on whose Board I serve, would stand to loose some $100,000 per anum were such a tax imposed. This loss would severely affect the quality of its educational programs and the opportunity it offers its students. The funds cannot be made up through increased tuitions, for they are already high and are of course market sensitive. Our students, many of whom are from Illinois, would be the real losers.

It is obvious, too, that such a tax would adversely affect other religious and cultural organizations, in many of which the citizens of this State are understandably proud.

I urge your immediate effort to delete the concept.

Sincerely,

James P. Gorter

JPG:rs

LAKE
FOREST
COLLEGE

July 27, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D,C. 20505

Dear Mr. Chairman:

As President of Lake Forest College and a member of the Board of other tax-exempt organizations, both educational and cultural, I want to urge you to delete the concept of an "excise" tax on the net investment income of tax-exempt organizations in your revenue enhancement efforts. It is my understanding that such a tax is now being considered by the Committee on Ways and Means.

There are a number of reasons which support my opposition to such a measure but none as signficant as the deprivation it would cause those students who enroll in the College, many of whom come from our State of Illinois. We estimate that the amount we would be required to pay under the five percent tax would exceed $100,000 per year, a loss to the College's budget which would require higher tuitions to maintain quality or a decrease in the very quality of the edudcation we offer. In either case, students would be the loosers.

Surely there are other reasons to oppose such a solution to the revenue problem, reasons of questionable constitutionality and competitive relationships between independent and state-supported schools. Mostly, however, the issue is one of public policy. This nation more urgently than ever before needs a public policy which fosters quality education, which encourages the best of the arts and which makes it possible to preserve the rich cultural heritage of this great nation.

You will be doing this College, its students from Illinois and from across this nation, and the nation itself a great service by supporting the deletion of the five percent excise tax on the net investment income of tax-exempt organizations. Thank you for your consideration of this vital concern.

Very truly yours,

Eugene Hotchkiss

Office of the President

Sheridan and College Roads
Lake Forest, Illinois 60045
(312) 234-3100

THE LIGHTHOUSE

111 East 59th Street
New York, NY 10022
(212) 355-2200

Incorporated in 1906 as
The New York Association
for the Blind

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July 30, 1987

Congressman Dan Rostenkowski
Chairman, Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. - 20515

Dear Congressman Rostenkowski:

It is our understanding that the Ways and Means Committee is considering the introduction of legislation which would impose a 5% excise tax on the gross investment income of not-for-profit organizations including net capital gains less the expense of earning such income. The Lighthouse, The New York Association for the Blind, is writing to ask that the legislation not be introduced. Such a tax would have a strong and negative effect on our ability to provide services to blind and visually impaired people.

The Lighthouse is the largest not-for-profit agency of its kind in the United States. Each year it provides services to more than 6,000 people with severe visual handicaps. In 1986 almost 23% of our services were funded through income generated from investments. As such, the tax you are considering would either necessitate an immediate reduction in programming or the use of money from our endowment.

The Lighthouse, like many other not-for-profit agencies, has only limited access to its endowment. Many of the large legacies and gifts we receive stipulate that only the income from the legacy or gift can be used to fund services Other gifts or legacies can be used only for specified purposes. Consequently, we would be able to draw funds from only a limited part of our endowment to replace the operating revenues lost through the imposition of a 5% excise tax. Needless to say, we could not do this for an extended period of time without imperiling the agency's future well-being.

An excise tax of the kind you are proposing is particularly onerous because it comes at a time when the demand for our services is growing. In 1986 The Lighthouse client population increased by more than 6% and our ability to respond to this increase depends for the most part on revenues from investment income. Only 15% of our operating costs are covered by contributions. Because of last year's revision of the Federal tax laws, we are concerned that we will be unable to maintain even that level of giving.

Congressman Dan Rostenkowski
July 30, 1987
Page 2:

We at The Lighthouse understand the need to reduce the Federal deficit. However, the not-for-profit sector has already borne an undue share of the deficit reduction effort. Public funding for health, rehabilitation and human services has either been cut or remained static for several years. The proposal to impose a tax on the investment income of not-for-profit organizations like The Lighthouse would generate only a small amount of revenue at a very great cost to those who depend on the voluntary sector for assistance. Again, we urge that the proposal be abandoned.

Thank you for your consideration.

Sincerely yours,

Barbara Silverstone

Barbara Silverstone, DSW
Executive Director

BS:vr

THE LUTHERAN CHURCH-MISSOURI SYNOD

EASTERN DISTRICT
2500 Kensington Avenue
Buffalo, New York 14226-4990
716 839-2340

Office of the President

Congressman Daniel Rostenkowski
1102 Longworth House Office Building
Washington, DC 2 0 5 1 5

July 17, 1987

Dear Congressman Rostenkowski:

It has come to my attention that the House Ways and Means Committee of which you are a member, is considering a number of ways to close the gap between federal income and federal expenditure, and that some of the ways under consideration involve taxation on investment income of religious, charitable and educational organizations and substantial reductions in charitable deductions which itemizers can take.

I am president of a division of a major religious body in the United States and Canada, a director and/or member of a number of not-for-profit organizations which have dedicated themselves in service to the poor, the handicapped and the underprivileged. Both my church body and the organizations in which I serve are struggling for financial support to keep their worthwhile activities and services going. Any further taxation or income, or restrictions on contributions will hurt the recipients of these services very much and will have the effect of either dumping a bunch of social problems into the lap of the government for resolution, or will leave a bunch of people badly in need "out in the cold."

In my appeal to you to avoid "taxing" churches and charitable institutions, I am thinking of the people who look to us for services, namely:

:- Unwed mothers coming to receive counseling and understanding, and care when their child arrives.

:- Some of my mentally retarded young friends who live in our group homes, and who get a chance to go to a summer camp for a week of release from the "prison" of sameness which makes up their lives.

:- People under stress who come to our churches and social service agencies to receive counseling and care.

:- People who depend on our food pantries because their incomes (if they have any at all!) do not measure up.

:- New arrivals from overseas who need extra help.

:- Hospitals, nuirsing homes, senior citizens housing, day cares, nurseries, etc.

I could go on and on, but you know this yourself. Perhaps you are already a member of a civic organization, charitable organization, boy scouts, United Way Agency, etc. and you know how taxation would impact on the ability of the agency to deliver services.

You know that dollar for dollar the one which delivers the most service to the recipient is the one operated historically by the church with its corps of volunteers behind it.

Please do not tax us where we are trying to do good. The country will be poorer if you do.

Sincerely Yours,

Arnold E. Kromphardt, LL.D.

1657 Bay Road
Miami Beach Fla. 33139

August 6, 1987

Dear Chairman Rostenkowski:

The Lighthouse for the Blind is a wonderful and helpful organization that helps sightless people. A tax on the Lighthouse would be very harmful for the organization would be harmful. It cannot afford to lay out extra money. Please look into the matter promptly. It will be very helpful to the Lighthouse for the Blind. We will appreciate your prompt help. Thank you,

Yours truly,

Jeanette Markowitz

ROMANO L. MAZZOLI
THIRD DISTRICT, KENTUCKY

WASHINGTON OFFICE:
SARAH LUNA
ADMINISTRATIVE ASSISTANT

2246 RAYBURN BUILDING
WASHINGTON, DC 20515–1703
TELEPHONE: (202) 225–5401

Congreſs of the United States
House of Representatives
Washington, DC 20515–1703

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FEDERAL BUILDING
600 FEDERAL PLACE
LOUISVILLE, KY 40202–2267
TELEPHONE: (502) 582–5129

September 9, 1987

The Honorable Dan Rostenkowski
Chairman
House Ways And Means Committee
1102 Longworth H.O.B.
Washington, D. C. 20515

Dear Dan:

Enclosed, please find a copy of a letter sent to you by Ms. Karen Garrison, Director of Government and Community Relations at the University of Louisville.

I am writing to ensure that Ms. Garrisons' concerns receive all due consideration as the Committee continues to weigh the roughly 200 revenue-raising options to produce revenues to reduce the federal deficit.

I appreciate the difficult task before the Committee and I thank you for your attention to this matter.

With all best wishes and regards.

Sincerely,

ROMANO L. MAZZOLI
Member of Congress

RLM:jpt

Enclosure

Director
Government and Community Relations

University of Louisville
Louisville, Kentucky 40292
(502) 588-6026

UNIVERSITY of LOUISVILLE

August 31, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Rostenkowski:

As a publicly financed university in a state with chronic revenue shortfalls, the University of Louisville has come to depend, to a great extent, on private donations to fund many university functions. Therefore, we strongly oppose levying a five per cent excise tax against the net investment income of non-profit organizations. This would be money which we can ill afford to lose.

The University of Louisville had approximately five million (5,000,000) dollars in investment income last year, mostly from endowment funds. If a five percent (5%) tax on non-profit investment income is adopted, the University of Louisville would lose $250,000 a year which would have gone to support scholarships, the library and research. This is not revenue that would come from operating expenses but rather funds that directly affect our students.

Please try to spare the educational institutions as you look for revenue raising options. Your concern and attention in this matter will be greatly appreciated.

Sincerely,

Karen Garrison

Karen Garrison
Director, Government and
Community Relations

0141G/KG

cc: Congressman Romano Mazzoli
Congressman James Bunning

3631 Frantz Rd
Miami, Florida
December 2, 1987

Dear Mr Rostenkowski:

I am strongly opposed to the taxation of the Lighthouse for the Blind and any other non-profit organization. The Lighthouse (and other non-profit organizations) are engaged in an endeavor to make use-full and self supporting citizens of handicapped people. ~~To~~ tax a 5% of donations ~~of these organizations~~ [illegible] to these units is most unfair not only to the ones but to the donor.

Yours truly,

Joseph R. McGaughey

Joseph McGaughey
3631 Frantz Road
Miami, Florida 33133

MIDWAY
COLLEGE

Office of External Affairs • Midway, Kentucky 40347-9731 • (606) 846-4421

July 21, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman,

As a small liberal arts college in Central Kentucky, Midway College has offered a quality education to women since 1847. Our policy has always been to review each applicant on the strength of her record, and have never refused admission to a qualified student due to financial need.

We have been able to maintain this "open-door" policy partly because of the investment income we've received from our endowment. Without this income, the College would not be open today. We strongly oppose the revenue option that would impose a five percent excise tax on the net investment income of tax-exempt organizations.

This tax would terminate the exemption Midway College now enjoys, and replace it with an income tax based on the amount of the investment income. This taxation would greatly reduce our ability to continue to offer scholarship support to our students.

Midway College has traditionally used the income from our endowment to supplement the general operating budget, which annually falls short of our income. The only place where we could effectively reduce costs would be in the scholarship area, where last year we provided more than $342,000 (an average of $922 per student) in scholarship support. Of course, we would be very reluctant to follow such a drastic measure.

Thank you for considering our views on this matter of utmost importance to our institution.

Sincerely,

John L. Dietz Jr.

John L. Dietz Jr.
Director of Development

Distinctive Education For Women Since 1847

Montefiore Hospital

Corporate Member and Teaching Hospital
University Health Center of Pittsburgh

3459 Fifth Avenue
Pittsburgh, Pennsylvania 15213
(412) 6[illegible]-6000

July 14, 1987

Representative Dan Rostenkowski
Chairman, House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Rostenkowski:

It has come to my attention that the Congressional Joint Tax Committee is considering a set of revenue raising options which includes a five percent excise tax against the net investment income of non-profit organizations. Notwithstanding the historical recognition that tax exempt organizations perform functions that promote the general welfare of the public at large, the imposition of this excise tax against non-profit hospitals would be particularly discordant in light of recent cuts in Medicare reimbursement to hospitals.

This tax would reduce the funds available to and needed by charities, social welfare organizations, and other exempt organizations in carrying out non-profit activities. In that many non-profit hospitals are currently experiencing operating losses, an imposition of a tax on investment income would only serve to reduce the financial viability of these charitable institutions. The costs of charitable and uncompensated medical care are often offset by investment income from endowments granted for this purpose. A tax upon this income is a direct tax upon the nation's poor and elderly.

I strongly urge your opposition to this proposed excise tax on non-profit investment income, and thank you for your consideration of this view on an issue of vital importance.

Sincerely,

Irwin Goldberg

Irwin Goldberg
President

/mas

THE MOUNT SINAI MEDICAL CENTER
ONE GUSTAVE L. LEVY PLACE • NEW YORK, N.Y. 10029

OF THE CITY UNIVERSITY OF NEW YORK

Mount Sinai School of Medicine • The Mount Sinai Hospital

Office of the Chairman

July 16, 1987

The Honorable Dan Rostenkowski
Chairman
House Committee on Ways and Means
2111 Rayburn House Office Bldg.
Washington, D.C. 20515

Dear Mr. Rostenkowski:

Although Congress and the Ways and Means Committee in particular must find appropriate means of addressing the Nation's budgetary deficit, it is important that it not adopt expedient solutions which will have long term adverse effects on our society. As Chairman of The Mount Sinai Medical Center, one of the country's largest and most important hospitals and medical schools, I write to urge you not to adopt an excise tax on non-profit investment income.

Non-profit institutions, especially those involved in health care delivery, education and research, provide a vital element in our society which would be severely damaged if investment income and profits were taxed. Budgets are already strained and programs curtailed by recent changes in reimbursement formulas and other cutbacks in funding of medical education and research grants. Endowment income is the backbone of institutional quality and stability. Not-for-profit institutions make a major contribution to society in the care they offer those that cannot afford to pay for service. At Mount Sinai this figure in 1986 was $17 million of unreimbursed care. If endowment income were to be taxed, these services would either be curtailed or the burden for them shifted to the government in one form or another. Hence, I urge you strongly not to introduce an excise tax on investment income of non-profit organizations.

However, I would suggest that a not illogical source of revenue would be to adopt an excise tax on the investment income and gains of pension funds. The asset and potential revenue base here is much larger and the concept socially more valid. If you would care to explore this in greater detail I would be more than pleased to make myself available.

With thanks for your thoughtful consideration, I am

Sincerely yours,

Frederick A. Klingenstein
Chairman

Statement By

PETER SWORDS
Executive Director, Nonprofit Coordinating Commitee of New York

HEARINGS BEFORE THE COMMITTEE ON
WAYS & MEANS
U.S. HOUSE OF REPRESENTATIVES

JULY 15, 1987

Testimony is hereby submitted on behalf of the Nonprofit Coordinating Committee of New York. We are a membership organization of 200 501(c)(3) nonprofits, formed to advance and protect the interests of the New York City 501(c)(3) community. Our members range from storefront human service organizations to the Metropolitan Museum of Art.

We register our strongest opposition to the suggestion that an excise tax of 5% be imposed upon the net investment income of organizations exempt from the federal income tax under section 501 of the Internal Revenue Code. Although the proposed tax would fall upon all section 501 organizations, our testimony is limited to discussing its impact on section 501(c)(3) nonprofits and the purported justification for taxing them.

The major impact of a tax on the net investment income will be on the beneficiaries of 501(c)(3) nonprofit organizations as these nonprofits respond to their diminished income by either reducing the level of their services or increasing their fees. In many cases, the impact will be on those who can least afford it - the disadvantaged, the poor and the suffering -and who it is unlikely that Congress should choose to bear the burden of an attempt to find extra tax revenues. But the shock of the tax will extend beyond this to the middle class by causing a reduction in many of the cultural, educational, and medical services this group has come to expect.

Many nonprofits have endowments established by contributions made by those who wanted the income generated from their gifts devoted entirely to advancing the purposes of the nonprofit. The proposed tax might very well operate to discourage future contributions to endowments as donors realize that some of the income generated by their gifts will not be used for the purposes for which they were given.

The impact of the proposed tax would be wide-spread. In addition to churches, universities, museums and hospitals, many smaller nonprofits run fund balances from time to time which produce desperately needed net investment income. But perhaps, the most damaging consequence of the tax would be its impact upon private foundations which fund so many nonprofit activities. Virtually all of the income of these institutions comes from endowment-type balances, the income of which would be characterized as net investment income. A 5% reduction in foundation payout could very well tip the balance for many organizations in their struggle to survive.

If enacted, the proposed tax would mark a fundamental change in the tax policy of the United States, a change which would alter the basic terms of the relationship that has existed between the nonprofit and government sector for over 200 years. The rationale for exempting nonprofits from tax has recently been stated with great clarity by the Treasury Department's Deputy Assistant Secretary for Tax Policy O. Donaldson Chapoton and bears repeating here. Let us quote from his testimony before your Oversight Committee on June 22.

"Taxes are imposed to fund the activities of

> government, and represent a removal of resources from private hands to support the broad, public purposes served by government. Although public charities are privately operated and controlled, their exempt activities are restricted to those deemed to serve the public interest. An organization that provides food and shelter for the poor, or that encourages education, the arts or humanities, is serving the same general purposes with which government itself is concerned. Thus, resources dedicated to the activities of such organizations may be viewed as similar to funds transferred to and used for the general purposes of government. For this reason, income transferred through a charitable contribution or earned directly by a public charity may be appropriately exempted from tax."

Finally a very serious first amendment religion clause issue lurks in this proposal. The political pressures to exempt churches may well be irresistible and yet to exempt churches and tax the rest of the 501(c)(3) community would be to single out religion for special benefit from the class of public-benefit organizations of which, under the controlling Walz[1] decision, it is a member. This would almost surely be violative of the establishment clause.

---

[1] Walz v. Tax commission, 397 U. S. 664 (1969).

ocpm

July 29, 1987

Daniel Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
1102 Longworth House Office Building
Washington, DC 20515

Dear Congressman Rostenkowski :

The Ohio College of Podiatric Medicine is strongly opposed to the revenue option that would impose a five percent excise tax on the net investment income of tax-exempt organizations. This proposal would tax the income from endowments, established solely to support the tax-exempt purposes of education and research, of hundreds of colleges and universities, public and private, large and small. We request that this letter be included in the hearing record relating to revenue raising options for H Con Res 93.

In our case, this would have a severe impact on the current funds operations. Our Board of Trustess has approved the utilization in current fund expenditures of 100% of the earnings on our endowment funds. To have these earnings taxed at 5%, would have a direct correlation on the amount of funds available for our programs directly involved in the delivery of educational programs.

Thank you for your consideration of our perspective.

Very truly yours,

David R. Nicolanti ka

David R. Nicolanti
Executive Vice President

DRN/skk

OHIO COLLEGE OF PODIATRIC MEDICINE
UNIVERSITY CIRCLE
10515 CARNEGIE AVENUE • CLEVELAND, OHIO 44106 • (216) 231-3300

people's bank

Norwick R. Goodspeed
Chairman of the Board
(203) 579-7444

People's Bank
899 Main Street
Bridgeport, Connecticut 06604

August 3, 1987

Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

I am writing with regard to tax proposals before the Ways and Means Committee which would adversely affect non-profit charitable, educational, human service, arts, cultural and other community organizations.

I think all of us recognize that one of the greatest strengths of our country is the existence of all of the many private non-profit institutions which contribute immeasurably to the quality of life -- everything from hospitals and other human service institutions to theaters, museums and other cultural organizations. It is hard to conceive of life in America without these organizations, all of which depend upon voluntary financial support from private citizens and corporations.

If private citizens were unable to provide the financial support for these non-profit institutions, either government would have to provide these services, or they would not exist. Even if we wanted all these things provided by government -- an approach which few people would choose --the tax burden would be unbearable.

At a time when we are trying to reduce, rather than increase, government spending, our federal tax policy should be aimed at increasing, not discouraging, private charitable support of non-profit institutions. It seems to me the worst possible tax policy would be to diminish the deduction for charitable giving or to impose an excise tax on investment income of tax-exempt organizations, which can only hurt these institutions which are so fundamental a part of the fabric of our society.

I hope you will oppose any effort to diminish the deductability of charitable giving or to levy taxes upon non-profit charitable, educational or cultural institutions.

Very truly yours,

N R Goodspeed

PAT WILLIAMS
MONTANA, WESTERN DISTRICT

MAJORITY DEPUTY WHIP

COMMITTEES
BUDGET
CHAIRMAN
TASK FORCE
ON HUMAN RESOURCES
EDUCATION AND LABOR
CHAIRMAN
POSTSECONDARY EDUCATION
SUBCOMMITTEES
ELEMENTARY, SECONDARY AND
VOCATIONAL EDUCATION
EMPLOYMENT OPPORTUNITIES
LABOR STANDARDS
SELECT EDUCATION

Congress of the United States
House of Representatives
Washington, DC 20515

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59701

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59601

MISSOULA
(406) 549-5550
302 W. BROADWAY
59802

STATEMENT OF
REP. PAT WILLIAMS
CHAIRMAN, SUBCOMMITTEE ON POSTSECONDARY EDUCATION
HOUSE COMMITTEE ON EDUCATION AND LABOR

ON THE PROPOSED FIVE PERCENT TAX ON INVESTMENT
INCOME OF TAX-EXEMPT ORGANIZATIONS

BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
JULY 15, 1987

Mr. Chairman and Members of the Committee. I appear before you today to offer my views on a proposal you have under consideration---the five percent excise tax on the investment income of tax-exempt organizations. This proposal would directly affect many of this nation's institutions of higher education, for literally hundreds of our colleges and universities have endowments.

In my capacity of Chairman of the Subcommittee on Postsecondary Education I have come to appreciate the unique mission that postsecondary institutions play in the vitality of our economy and the lives of our fellow citizens, and I know the importance of their endowments to that mission.

I am also a member of the Budget Committee and in that capacity I recognize the necessity of finding $19.3 billion in additional revenues.

However, the haste and urgency of seeking these additional revenues should not blind us to consideration of other important matters. One of those is the use to which our institutions of higher education put the money; endowments are established solely to support the tax-exempt purposes of education and research. Another is the value of that use to the American people. This country depends on our educational institutions to train its scientists, its workers, its manufacturers. Endowments can and do offset some of the costs of higher education, a use we have in the past considered proper.

The Ways and Means Committee has always taken such purposes into their deliberation of tax policy, and the Members of this Committee have always insisted that reasonable choices be available through the tax code.

I know that the Committee is aware that the recent reauthorization of the Higher Education Act reduced the authorization for higher education purposes by over $1 billion dollars. That policy decision followed four years of careful deliberation. I know that you are also aware that the recent tax code reform efforts made a number of changes that affect our postsecondary institutions' ability to carry out their mission of educating our children for tomorrow's challenges. COBRA made other changes. I urge you to not make additional changes until we are able to determine the effects of the rather major changes already imposed on America's colleges and universities.

Thank you.

OFFICE OF THE ACADEMIC DEAN

QUINCY
COLLEGE

1800 COLLEGE AVE. • QUINCY, IL 62301-2699
TELEPHONE: 217-228-5200

July 20, 1987

Hon. Daniel Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

A five percent excise tax on the net investment income of a small, private college such as Quincy College would be a severe below to its financial structure. Most small private colleges such as ours have limited endowments; to impose taxes on the earnings of these endowments would make us even more reliant upon tuition income than we are now. There are limits to how often and how high tuition can be raised.

Considering the struggles private colleges constantly go through to remain economically and academically viable, please don't impose upon us another obstacle such as an excise tax! The loss of $5,000 from our investment income means the loss of several small scholarships to needy students.

Sincerely,

Kenneth C. Conroy

Kenneth C. Conroy
Academic Dean

KCC:da

SAINT MARY'S COLLEGE
Office of the President

August 3, 1987

The Honorable Daniel Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Rostenkowski:

I understand that the tax writing committees of Congress are considering a proposal to impose a 5% "excise" tax on the net investment income of tax-exempt organizations. On behalf of Saint Mary's College, a private women's college, I strongly oppose such action.

As a small institution with a $5 million endowment, Saint Mary's can ill afford a 5% tax on our endowment income. Although we have operated with a balanced budget for the past fourteen years, our budget is in balance each year by only a few thousand dollars. Consequently, what seems a mere pittance to Congress becomes a significant amount to a small institution like Saint Mary's. Furthermore we are placed at a disadvantage because we cannot use expenses to offset the tax liability.

This approach of a tax on our endowment income is contrary to the very purpose of the tax-exempt status enjoyed by educational institutions. Consequently, I urge you to reject it totally as being incompatible with the very special role played by education in our society.

Sincerely yours,

Clauston Jenkins
President

CJ/tdm

900 Hillsborough Street • Raleigh, North Carolina 27603-1689 • 919-828-2521

3630 S.W. 25 St.
Miami, Florida 33133
September 2, 1987

Dear Mr. Rostenkowski:

I am a client of the "Lighthouse of the Blind" They are teaching me, to be self sufficient in my home that includes doing all kinds of culinary functions. Also how to walk the streets with a cane.

This is done without charge of any amount. I therefor feel and think that the proposed tax on this ~~institution~~ is unfair and should not be passed by the Legislature.

Yours Truly
Morris Schoenfeld

A Jesuit school founded in 1869
st ignatius
college prep

Rev Donald F Rowe, S.J., President

August 13, 1987

Hon. Dan Rostenkowski
Chairman
House Ways and Means Committee
Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I recently heard that there is a proposal before the House Ways and Means Committee to impose a 5% excise tax on the net investment income of all tax exempt organizations.

I know that other proposals have been made which would deter even more individual contributions to charitable organizations.

Presently our school saves the taxpayers over $6,000,000 a year. That's what it would cost to educate our 1,230 students in the public school system of Chicago.

The income from our $450,000 endowment goes to support financial aid for needy students - who would be schooled at public expense if we didn't give them a scholarship.

For 117 years we have done our part. I ask you to defeat any measures which would further limit philanthropy to charitable institutions.

My sincere thanks for your interest.

Donald F. Rowe, S.J.

1076 WEST ROOSEVELT ROAD • CHICAGO, ILLINOIS 60608-1594 • 312/421-5900

MARRIOTT'S
TAN-TAR-A
RESORT AND GOLF CLUB

July 31, 1987

Mr. Daniel Rostenkowski Chairman
2111 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski:

I would like to express my opinion on the proposal in Congress to impose a 5% excise tax on the net investment income of tax exempt organizations, with the hope that you will consider the long-term affects this taxation will have on our educational institutions.

As a member of the Board of Curators of Stephens College in Columbia, Missouri, I would like to emphasize the negative economic impact this taxation would have on our campus. I feel this taxation would, in the long run, affect the quality of education generally, and it would affect students needing financial aid disproportionately. It would also limit the ability of institutions to cushion the impact of increased operating costs and reduced federal funding for student aid and other programs.

I feel that we should be looking for ways to further education in the universities of this country, and that we should be doing everything possible to enhance the educational process; taxation on investment income of tax-exempt organizations is a step backward!

Thank you for your consideration.

Sincerely,

MARRIOTT'S TAN-TAR-A
RESORT AND GOLF CLUB

Bill Bennett
General Manager

BB:rb

Lake of the Ozarks, Osage Beach, Missouri 65065, (314) 348-3131
Awarded Five Diamonds by AAA and Four Stars by the Mobil Travel Guide

TSC
TRENTON
STATE COLLEGE
Office of the President

August 3, 1987

The Honorable Dan Rostenkowski
Chairman
Committee of Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I understand that a proposal to impose a five percent excise tax on the net investment income of tax-exempt organizations was advanced by the staff of the House Ways and Means Committee.

I further understand that a tax on the investment income of colleges and universities would be a radical departure from established tax policies and constitute an adverse precedent for future legislation in the charitable area.

I am of the opinion that an excise tax on investment or endowment income would limit the ability of Trenton State College, and other institutions of higher education, to cushion the impact of increased operating costs and reduced federal funding for student aid and other programs.

Although Trenton State College is primarily a publicly supported institution, its charitable fundraising provides the margin of excellence which has made this institution so competitive. The college is indeed mindful that its mission embraces the nobility of imparting knowledge and transmitting culture. We are also aware that it is an instrument of public policy. As the American Council on Education (ACE) has stated: "Colleges and universities have developed into responsive instruments for pursuing national objectives. The tax would withdraw funds from these institutions at the same time that Congress is attempting to increase their funding for biomedical research, research related to national security, and need-based student assistance."

I urge that you oppose any changes in the tax law that would adversely affect charitable giving. Such a tax would significantly hinder the ability of Trenton State College and other institutions of higher learning to perform their missions.

Thank you for your consideration.

Sincerely yours,

Harold W. Eickhoff
President

Trenton State College, Hillwood Lakes CN 4700
Trenton, New Jersey 08650-4700 609-771-2101

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It brings out the best in all of us.

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Public Relations

RONALD J. SOVIK
Public Relations

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of Central Stark
County, Inc.

618 Second St. N.W.
Canton, Ohio 44703-2795
(216) 455-0378

Service Area:

Greater Canton, North Canton, East Canton, Hartville, Uniontown, Greentown, Louisville, Waynesburg, Magnolia and East Sparta

July 23, 1987

Mr. Daniel Rostenkowski
Chairman - Chicago
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski:

I am writing to ask for your assistance in getting the proposed staff options to raise taxes dropped; specifically, the ones affecting charities.

One keys in on the charitable deduction for itemizers and the other proposes a 5% excise tax on net investment income for tax-exempt organizations.

I am the Director of a Metro II United Way. We raise over $4,000,000 that is in turn distributed to 25 human service organizations. This amount falls considerably short of what is actually needed to meet the demands placed on these agencies in the past seven years.

Our volunteers, our agencies, and our community have felt the impact as government has turned over to the voluntary sector many of its responsibilities for human service delivery. They have felt the crunch as government has withdrawn funds through various budget cuts.

They are beginning to feel the effects as government has undermined our ability to raise funds.

We urge you to not do anything further to reduce the capacity of the voluntary sector to fulfill its public service.

Thank you for your help and cooperation.

Sincerely,

Gerard J. Cerny
Executive Director

GJC:jmb

UNIVERSITY OF CALIFORNIA, SANTA BARBARA

BERKELEY • DAVIS • IRVINE • LOS ANGELES • RIVERSIDE • SAN DIEGO • SAN FRANCISCO SANTA BARBARA • SANTA CRUZ

DAVID PIERPONT GARDNER
President of the University

BARBARA S. UEHLING
Chancellor at Santa Barbara

OFFICE OF THE CHANCELLOR
SANTA BARBARA, CALIFORNIA 93106

August 1, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the University of California, Santa Barbara, I would like to express the campus's strong opposition to the suggested revenue option imposing a five-percent "excise tax" on the net investment income of tax-exempt organizations. This proposal would have a dramatic impact on the income from our endowments, established solely to support our tax-exempt purposes, and seriously impair our ability to address our mission of teaching, research, and community service. In short, this measure is potentially disastrous for every college and university throughout the nation.

- In a staff pamphlet issued by the House Ways and Means Committee, it was suggested that the tax would have a "limited impact on the activities of exempt organizations." As applied to institutions of higher learning, let me assure you that **the impact would be both adverse and profound**.

- The proposed measure is **clearly inconsistent with the traditional relationship between the federal government and non-profit organizations**.

- Virtually **all institutions of higher learning (both public and private) have investment income that provides vital support for their operations and therefore would have tax liability under this proposal**.

- Colleges and universities already share the costs of government, as they are either units of government, and/or they are institutions that are tax-exempt because **they relieve government of the burdens of meeting public needs by enlisting private funds for public benefit**.

In addition to this new proposal, the staff pamphlet restates proposals, previously considered and rejected by Congress, that would substantially reduce the benefits of our tax-exempt status by reducing the deductability of charitable contributions. We strongly urge that Congress again reject changes in the tax law that would discourage charitable giving and thus re-dedicate itself to preserving the ability of higher education to fulfill its important mission.

Sincerely,

Barbara Uehling

Barbara S. Uehling
Chancellor

UNIVERSITY OF THE PACIFIC Stockton, California
95211

August 21, 1987

Honorable Daniel Roslenkowski, Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Chairman Roslenkowski:

I recently learned that the House Ways and Means Committee will be considering a proposal for a 5% tax on the net investment income of tax-exempt organizations, including independent colleges and universities.

Such a tax would have a very detrimental effect upon the endowments and other educational funds of the nation's higher educational institutions. These funds are providing operating income, as well as support for scholarships and research for colleges and universities which are already facing difficult financial obligations. A tax on such investment income would have a very adverse impact upon our institutions and certainly would not be in the best interests of America's higher educational system nor the general welfare of the nation which must depend upon a strong and healthy educational structure to provide economic growth, vital research and a well educated population. To add an additional tax burden on educational institutions is not consistent with sound national objectives.

You can be certain that colleges and universities are concerned about the costs of government and the necessity to find new revenue sources. I submit, however, that the investment income earned by higher educational institutions is relieving governments of burdens of meeting national needs which otherwise would have to be met.

I strongly urge that the Ways and Means Committee and the House reject the concept of a tax on investment income of colleges and universities and any changes in the tax law that would reduce the ability of our universities to perform our vital mission.

Thank you for your consideration.

Sincerely,

Bill Atchley

Bill L. Atchley
President

UNIVERSITY OF WISCONSIN
STOUT
MENOMONIE WISCONSIN 54751

July 31, 1987

The Honorable Daniel Rostenkowski
Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski:

I write to register strong opposition to the idea of levying a five percent excise tax on the net investment income of tax-exempt organizations. This proposal, currently being considered by the House Ways and Means Committee, would for the first time essentially tax the activities of tax-exempt institutions working to promote the welfare of this country at a time when many other forms of governmental funding are declining or disappearing entirely.

I write as the executive director of a university foundation, which exists solely for the purpose of benefiting the educational program for the students our university serves. We are a small university foundation with assets under $2 1/2 million. All of the income we currently generate from any of those invested assets goes immediately and directly to our university in the form of scholarships, grants for faculty, and purchases of equipment for the educational program. An excise tax on these investment earnings would directly reduce the amount of aid our foundation could provide our educational program.

This kind of reduction comes on the heels of various reductions from both the federal level in financial aid areas, and from our state in the form of faculty and staff support. In a time when we should be strongly encouraging charitable, not-for-profit organizations to assist in areas such as education, health, and social welfare, this type of proposed tax on non-profits would be a serious burden.

I, therefore, strongly encourage you and fellow members of the House Ways and Means Committee to immediately discard the concept of a tax on the net investment income of tax-exempt organizations. Our abilities to continue to serve our institutions and the population at large would be seriously diminished by such a tax. Thank you for your consideration of my point of view.

Sincerely,

David K. Williams

David K. Williams
Executive Director

DKW/cms

UNIVERSITY OF WISCONSIN-STOUT IS AN EQUAL OPPORTUNITY AND AFFIRMATIVE ACTION UNIVERSITY.

Testimony On Behalf Of

University Patents, Inc.

Before

The Committee on Ways and Means
U.S. House of Representatives

On

Possible Options To Increase Revenues
In Connection With The Fiscal Year
1988 Budget Resolution

Submitted By F. David Lake, Jr.

July 15, 1987

This written testimony is submitted in response to press release #13, dated June 25, 1987, of the Committee on Ways and Means soliciting testimony on proposals to increase revenues.

University Patents, Inc. proposes that Congress repeal section 1605(c) of the Tax Reform Act of 1986 or amend it as outlined below in order to raise revenue and correct a continuing abuse created by that section.

Background

Technology transfer organizations are companies that assist universities in marketing the products of research they have sponsored. University Patents, Inc. is a small for-profit technology transfer organization located in Westport, Connecticut. It has subsidiaries in Largo, Florida and Urbana, Illinois. University Patents' principal competitors are Research Corporation of Tucson, Arizona, which is organized as a private foundation, and a newly-formed company to which Research Corporation has transferred its technology transfer business (the "technology transfer organization").

Enactment of Section 1605(c)

During conference on the Tax Reform Act of 1986, Research Corporation succeeded in having a provision added to the bill, section 1605(c). This provision allows it to fund a new company which operates as a taxable nonprofit corporation, without being subject to any of the private foundation regulatory taxes that would otherwise apply under the Internal Revenue Code. The provision was not in either the House or the Senate bill and received little or no scrutiny before being added to the Tax Reform Act. It is not a transition rule, as it does not relate to any other provision of the Act, but is a substantive provision applicable to a single company.

Consequences of Section 1605(c)

Section 1605(c) of the Tax Reform Act of 1986 permitted Research Corporation, a private foundation, to transfer its technology transfer business and investment assets, net receivables, and cash not exceeding $35 million to a new taxable nonstock entity for "debt." The transfer was exempted from the private foundation regulatory excise taxes that are designed to safeguard against this type of potentially abusive transaction. Those taxes include the tax against self dealing which normally would prevent a loan of this nature (certainly any loan at a below market rate of interest), the tax on taxable expenditures which normally would prohibit the transfer of assets to an organization that is not exempt and, most importantly, section 507(c) of the IRC which normally would prevent assets being removed from private foundation "solution" without the repayment of tax benefits obtained while the organization was exempt.

The provision in effect allowed Research Corporation to set up a "non-private private foundation" (somewhat analogous to a nonbank bank) -- an organization that is funded with untaxed private foundation dollars yet is beyond the reach of the private foundation regulations. The new entity has a significant competitive advantage over its taxpaying competitors because its multimillion dollar "core capital" was built up without the payment of any income tax. In addition, since the new taxable entity is a nonstock corporation, it does not have to pay dividends like a normal corporation and the "interest" it pays on the so-called debt gives it a deduction for a dividend equivalent. This result does violence to the private foundation and unrelated business taxable income provisions of the Internal Revenue Code.

Possible Solutions

There are two possible solutions to raise tax revenues and correct the ongoing abuse caused by section 1605(c).

First, section 1605(c) should simply be repealed and the assets of the newly-formed corporation should be required to be returned to Research Corporation where the activities of the technology transfer business once again would be subject to the private foundation regulations and any investment income again would be subject to the 2 percent tax on net investment income under section 4940 of the Internal Revenue Code.

Second, in the absence of repeal, the following technical amendments should be made in an attempt to mitigate the continuing unfairness:

1. The first technical correction would define the term "debt" for purposes of section 1605(c)(2)(A) by requiring that any debt obligation pay interest at least annually at the "applicable federal rate" (as defined in section 7872(f) of the Code) and amortize the principal in substantially level payments (not less frequently than quarterly) over the life of the obligation. It is inconsistent with debt status for the obligation to bear interest at less than a market rate and to be repaid in a balloon payment (which could be rolled over into another long-term obligation) at the end of a long maturity period. It also is inconsistent with the private foundation rules for the transferor private foundation to receive less than a market rate of interest.

2. The second technical correction seeks to cure the potential Clay Brown abuse (a taxable entity sheltering its income with deductible payments that are not taxable income to the recipient exempt organization) by providing that interest paid or payable by the technology transfer organization would not be deductible. This provides a measure of equity with taxpaying competitors which pay nondeductible dividends by, in effect, treating payments by the technology transfer organization to the private foundation as nondeductible constructive dividends. Moreover, the technical correction provides some compensation for the unfair advantage of the technology transfer organization receiving a transfer of a startup fund from an exempt organization that is several times the size it would have been if income taxes had been imposed in accordance with the Code.

3. The third technical change would require the private foundation to treat the interest received as unrelated business taxable income. The circumstances of the creation of the technology transfer corporation as the mirror image of the private foundation indicate that it is de facto a controlled corporation. Moreover, Washington Research Foundation, 50 TCM 1457 (1985), holds that the carrying on of a technology transfer business has a substantial commercial purpose and hence is an unrelated trade or business if carried on by an exempt organization. Thus, the technical amendment would amend section 512(b)(13) of the Code to provide that the technology transfer organization is treated as a controlled organization and the ratio of interest treated as UBTI is 100 percent.

YWCA OF LOS ANGELES
'SERVING LOS ANGELES SINCE 1894

July 20, 1987

Daniel Rostenkowski
House Ways and Means Committee
1102 Longworth House Office Building
2111 RHOB
Washington, D.C. 20515

The Honorable Daniel Rostenkowski:

We have just learned with horror of the congressional staff options paper on possible new taxes which among other things proposes a significant reduction in charitable deductions for itemizers and a 5% excise tax on investment income of tax exempt organizations.

It is simply incredible that, as the federal, the state, and the local government spend less and less on services to the poor and needy, anyone would suggest tax actions which will have a drastic negative impact on our ability to raise funds to do the job of caring for the needy, the poor, the children, the old and on and on.

Please do everything in your power to see that all options negatively affecting the non-profit world are promptly and permanently destroyed.

Sincerely,

Sandra Jones Anderson
President

Executive Offices •1125 West Sixth St., Suite 400 •Los Angeles, California 90017 •(213) 482-3470

Member Agency
United Way

TAX-EXEMPT ORGANIZATIONS - GENERAL

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1st Vice President BARBARA COLTON
2nd Vice President MARY LOU WESTERFIELD
3rd Vice President PATRICK QUINN
4th Vice President ELLEN BURSTYN
Recording Secretary LYNN ARCHER
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Midwest Regional Vice President MADELEINE FALLON
Western Regional Vice President JOSEPH RUSKIN
President Emeritus RALPH BELLAMY
President Emeritus FREDERICK O'NEAL
President Emeritus THEODORE BIKEL

Professional Theatre
Actors' Equity Association
Founded in 1913
AFL-CIO CLC

Executive Secretary ALAN EISENBERG
Counsel COHN, GLICKSTEIN, LURIE

Midwest Regional Director FERGUS G. CURRIE

BRANCH OF ASSOCIATED ACTORS
AND ARTISTES OF AMERICA, AFL-CIO
AFFILIATE OF FEDERATION INTERNATIONALE DES ACTEURS

203 NORTH WABASH, SUITE 1700 CHICAGO, ILLINOIS 60601 TELEPHONE (312) 641-0393

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Lee Richardson
Gil Rogers
Irma Rogers
Madeline Sherwood
Mark Ski
Will Stutts
David Tabor
Ted Thurston
Peter Jack Tkatch
David Westphal

Councillor Emeritus
John Kennedy
Ruth Gillette

August 24, 1987

Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, DC 20515

Dear Representative Rostenkowski:

On behalf of the more than 3,000 midwest members of Actors' Equity Association I am writing to express our strong opposition to the proposed tax-raising options currently being considered by the House Ways and Means Committee.

The effect some of these proposals would have on non-profit theatres which provide a great deal of work for our members would be catastrophic. In recent years, the arts community has taken serious cuts in public funding. Efforts to replace those needed monies from the private sector would be seriously hampered by legislation restricting incentives for giving. It is not the individuals in the 28% tax bracket who are penalized by the disincentives to charitable giving, but all of us who rely on these contributions to keep arts organizations alive.

We oppose the following suggested tax options that would seriously hamper the growth of all non-profit arts organizations. 1. Lowering the deductibility of itemized deductions by nearly 50%, from 28% to 15% for taxpayers in the 285 rate bracket. 2. Imposition of a new floor equal to 10% of an individual's adjusted gross income in excess of $50,000 ($100,000 for a married couple) under the total amount of a taxpayer's allowed itemized deduction. 3. Applications of a 5% excise tax on the net investment income of all tax-exempt organizations.

We hope we can count on your support to eliminate these proposals from the list of revenue enhancing proposals that the Ways and Means Committee is considering.

Sincerely,

Fergus G. Currie
Assistant National Executive Secretary
Midwest Regional Director

DANIEL ROSTENKOWSKI, CHAIRMAN
HOUSE WAYS AND MEANS COMMITTEE
1102 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON D.C. 20515

DEAR REP. ROSTENKOWSKI,

I AM MOST HOPEFUL THAT IT WILL NOT BE THE DETERMINATION OF THE CONGRESS TO FOLLOW THRU WITH THE PROPOSAL TO REDUCE THE CHARITABLE DEDUCTION CREDIT FOR ITEMIZERS, TAX THE PROFITS EARNED BY NON-PROFIT CORPORATIONS OR IN ANY WAY FURTHER INJURE THE 501 (C) 3 AGENCIES OF THE GREAT COUNTRY OF OURS.

I HAVE BEEN PRIVILEDGED TO SPEND MOST OF MY ADULT LIFE WORKING FOR A NUMBER OF THESE NON PROFIT AGENCIES THAT TEND TO MANY HUMAN NEEDS; BE THEY HOUSING, A SPIRITUAL LIFT THRU ART,MUSIC OR DANCE OR MOST IMPORTANT, CHILDREN'S WELFARE AND EDUCATION. I HAVE HELD A GUBERNATORIAL APPOINTMENT FOR SEVEN YEARS TO THE UNIQUE PINELLAS COUNTY JUVENILE WELFARE BOARD. I EARNED THIS POSITION THRU YEARS OF CHARITABLE ENDEAVORS.

I AM EXTREMELY CONCERNED ABOUT THE EFFECT THAT THE TAX CHANGES ARE HAVING ON THE INGRAINED AMERICAN SPIRIT OF HELPING EACH OTHER AND GIVING. NO OTHER COUNTRY HAS THE HERITAGE OF BARN RAISING THAT COMES TO US TODAY IN MANY WAYS THAT SUPPORT AN IMPORTANT SYSTEM OF AGENCIES BENEFITING AMERICAN LIFE. IT IS EXTREMELY DIFFICULT TO RAISE MONEY TO EVEN MEET OPERATING EXPENSES BECAUSE PEOPLE ARE NOT CERTAIN WHAT EFFECT THE TAX LAW OF 1986 WILL HAVE ON THEIR PERSONAL WEALTH. CHARITIES DEPEND ON THE KNOWN DISCRETIONARY DOLLAR.

THE FISCAL HEALTH OF OUR NATION IS EXTREMELY IMPORTANT. I DO HOPE THAT OTHER WAYS WILL BE FOUND TO RELIEVE THAT PROBLEM WITHOUT INVOLVING CHARITIES FURTHER.

SINCERELY,

Mary Wyatt Allen

MARY WYATT ALLEN
4001 ALABAMA AVE. N.E.
ST. PETERSBURG, FLA 33703

JULY 14, 1987

TESTIMONY SUBMITTED

by the

AMERICAN ARTS ALLIANCE

in cooperation with

AMERICAN SYMPHONY ORCHESTRA LEAGUE

ASSOCIATION OF ART MUSEUM DIRECTORS

DANCE/USA

OPERA AMERICA

THEATRE COMMUNICATIONS GROUP

to

THE HOUSE WAYS AND MEANS COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

Concerning Possible Options to Increase Federal Revenues

July 15, 1987

AMERICAN ARTS ALLIANCE

1319 F Street NW Suite 307 Washington DC 20004 phone (202) 737-1727

The American Arts Alliance is pleased to submit testimony to the House Committee on Ways and Means in connection with the Committee's hearings on possible revenue-raising options.

The Alliance, established in 1977, is a consortium of over 350 member nonprofit arts institutions that are active in the fields of theater, dance, opera, symphony orchestras, and the visual arts. Central to the Alliance's purpose is the establishment of a national public policy for the arts.

The Alliance welcomes the opportunity to participate in these hearings and supports the Committee's efforts to examine a wide-variety of revenue-raising options. While the Alliance is well aware of the need to lower the federal deficit, it is concerned that several of the revenue-raising proposals, following as they do on the heels of last year's tax reform, would further impair its members' important cultural missions. The proposals that chiefly concern the Alliance are (1) the five percent excise tax on net investment income of all tax-exempt organizations, and (2) those affecting the itemized deductions and the alternative minimum tax rate that would diminish the tax incentives for charitable contributions.

The proposal that a five percent excise tax be imposed on the net investment income, including the endowment, pension, and investment monies, of all tax-exempt organizations is particularly troublesome. Such a change in federal tax law would reduce the funds available for the conduct of tax-exempt arts and other cultural activities. This suggested means of raising revenue runs directly contrary to the premises upon which the long-standing federal policy of exempting certain organizations from taxation is based. This policy reflects a very early recognition on the part of our federal government that certain activities and services, many of which are carried out by volunteers, are so beneficial to the general public that they should be encouraged. The members of the Alliance, for example, enrich the lives of our citizens, including those who might not otherwise be able to avail themselves of the arts, by providing exhibitions and performances in local communities.

Further, to tax endowments would be counter to policies being advanced by the National Endowment for the Arts, which, through its challenge grant program, encourages the development of endowments as a means of developing long-term stability for arts organizations. Tax policy ought not to clash with these arts programs' policy objectives.

Endowments, which generate investment income, are a way of providing financial security for arts organizations the financial base of which is otherwise often precarious at best. Not only do they help to fund institutional operations, but they also permit an organization to undertake additional educational programs which otherwise would not be possible from any other source of financing. As just one example, the Boston Ballet has an educational endowment that helps to support its South End Community Dance Project. This project involves working with minority youth to teach jazz, African, modern, and Spanish dance. The existence of an investment income generating endowment also allows such organizations to plan projects for the future or to fund long-term cultural activities with the comfort that the funds will be there. Amounts raised annually from contributions and grants cannot be a substitute for an arts organization being able to plan a budget that allows it full utilization of its investment income.

To enact a measure that would reduce the available funds from what is often the most viable way of financing such worthwhile arts projects would risk substantially a reduction of the development and scope of the projects themselves. This result would be particularly unfortunate, as this particular revenue-raising proposal is not associated with any form of perceived abuse by tax-exempt organizations.

The Alliance understands the need for all organizations to participate in the process of reducing the federal budget deficits. However, reductions in federal spending and law changes wrought by the 1986 tax reforms have already caused arts organizations to participate in that process far beyond its equitable share. The proposed revenue-raising options would serve to unfairly increase this unwarranted burden.

Equally threatening to nonprofit arts organizations are the varied suggestions that would erode the incentive of individuals to continue making charitable contributions, including property that has appreciated in value. Specifically, these suggestions include:

- allowing itemized deductions for individuals only against the 15 percent tax rate, rather than the 28 percent tax rate.
- creating a new floor equal to 10 percent of an individual's adjusted gross income in excess of $100,000 ($50,000 for a single individual) under the total amount of a taxpayer's allowed itemized deductions.
- increasing the alternative minimum tax rate from 21 percent to 25 percent.

Each of these proposals would act as a disincentive for individual taxpayers to make the contributions that fuel considerably our country's nonprofit public-service sector. Combined with provisions in the Tax Reform Act of 1986, they would further undermine the ability of nonprofit arts institutions to continue to provide services to the public. These proposals would also run contrary to certain long-standing federal tax policies and practices. The creation of the floor for itemized deductions, for example, is contrary to the tradition of tax comity with state and local governments, and would surely cause a meaningful shrinkage in charitable giving.

The Alliance recognizes that people do not contribute to nonprofit organizations solely because of tax incentives. However, it is undeniable that such incentives affect the amount of contributions. After last year's loss of the nonitemizer's deduction and the inclusion of appreciated property in the alternative minimum tax, nonprofit arts institutions are particularly vulnerable. It is certainly disheartening that, in a climate that is currently scrutinizing the income-raising activities of the nonprofit sector, there would also be consideration of measures that would reduce substantially the most traditional and well-accepted means for charities to raise funds to support these exempt activities.

In summary, the Alliance believes that the five percent excise tax and the disincentives for charitable giving should be eliminated from the list of revenue-enhancing proposals that the Ways and Means Committee is considering. The invaluable societal objectives that gave rise to the incentives for engaging in and contributing to certain prescribed activities, such as the promotion of the arts, continue to be compelling for the development of our citizens. Many of the organizations engaged in these activities may not be able to withstand further attacks on their financial base.

American Arts Alliance

MEMBER INSTITUTIONS

A Contemporary Theatre
ACE-Charlotte's Repertory Theatre
The Acting Company
Actor's Theatre of Louisville
Akron Art Museum
Akron Symphony Orchestra
Alabama Shakespeare Festival
Alabama Symphony Orchestra
Alaska Repertory Theatre
Allen Memorial Art Museum
Allentown Art Museum
Alley Theatre
Alliance Theatre Company
Atlanta Children's Theatre
AMAS Repertory Theatre
American Ballet Theatre
American Conservatory Theatre
American Repertory Theatre
American Symphony Orchestra
Amon Carter Museum
Anchorage Opera
Arena Stage
Arizona Opera Company
Arizona Theatre Company
Arkansas Arts Center
Arkansas Opera Theatre
Arkansas Symphony Orchestra
Art Institute of Chicago
The Art Museum, Princeton University
Artpark
Asian Art Museum of San Francisco
Asolo State Theater
Atlanta Ballet
Atlanta Symphony Orchestra
Augusta Opera
The Baltimore Museum of Art
Baltimore Opera Company
Baltimore Symphony Orchestra
Barter Theatre
Bella Lewitzky Dance Company
Berkeley Repertory Theatre
Bill T. Jones/Arnie Zane Company
Body Politic Theatre
Boise Philharmonic
The Boston Ballet
Boston Symphony Orchestra
Brandywine River Museum
Brooklyn Museum
Buffalo Philharmonic Orchestra
California State University Art Museum
Canton Symphony Orchestra
Capital Repertory Company
Carnegie Institute Museum of Art
Cedar Rapids Symphony Orchestra
Center Stage
Central City Opera House
Chamber Opera Theatre of New York
Charlotte Opera Association
Chautauqua Opera Association
Chicago Opera Theater
The Children's Theatre Company
Cincinnati/New Orleans City Ballet
Cincinnati Opera Company
Cincinnati Playhouse in the Park
Cincinnati Symphony Orchestra
Circle Repertory Company
Cleveland Museum of Art
Cleveland Opera
The Cleveland Orchestra
Cleveland Play House
Colorado Opera Festival
Colorado Springs Fine Arts Center
Colorado Springs Symphony Orchestra
Columbus Museum of Art
Columbus Symphony Orchestra
Connecticut Opera
The Contemporary Arts Center
Contemporary Arts Museum of Houston
Corcoran Gallery of Art
Corning Museum of Glass
Cummer Gallery of Art
Cunningham Dance Foundation
Dallas Museum of Fine Arts
The Dallas Opera
Dallas Symphony Association
Dance Center of Columbia College
Davenport Municipal Art Gallery
Dayton Art Institute
Dayton Opera
Dayton Philharmonic Orchestra
Denver Center Theatre Company
Denver Symphony Orchestra
Des Moines Art Center
The Detroit Institute of Arts
Detroit Symphony Orchestra
Duluth-Superior Symphony Orchestra
El Paso Pro-Musica
Elvehjem Museum of Art
The Empty Space Theatre
Erie Philharmonic Orchestra
Eugene O'Neill Theater Center
Eugene Opera
Evansville Philharmonic Orchestra
Fargo-Moorhead Civic Opera
The Feld Ballet
Fine Arts Museums of San Francisco
Flint Institute of Arts
The Flint Institute of Music
Florentine Opera of Milwaukee
The Florida Orchestra
Fort Wayne Philharmonic
Fort Worth Art Museum
Fort Worth Opera Association
Fort Worth Symphony Orchestra
Four Corners Opera
George Street Playhouse
Georgia Museum of Fine Art
GeVa Theatre
Glimmerglass Opera Theatre
Goodman Theatre
Goodspeed Opera House
Grant Park Symphony Orchestra
Great Lakes Theater Festival
Greater Miami Opera Association
The Solomon R. Guggenheim Museum
Guthrie Theater
Handel & Haydn Society
Harry's Foundation
Hartford Ballet
Hartford Stage Company
Hartford Symphony Orchestra
The Hartman Regional Theatre
Harvard University Art Museums
High Museum of Art
Honolulu Academy of Arts
Honolulu Theatre for Youth
Houston Grand Opera
Houston Symphony Orchestra
Hudson Guild Theatre
Huntington Theatre Company
Indiana Repertory Theatre
Indiana University Art Museum
Indianapolis Symphony Orchestra
Institute of Contemporary Art, University of Pennsylvania
Intiman Theatre Company
The J. Paul Getty Museum
Jacksonville Symphony Association
The Japan House Gallery
Herbert F. Johnson Museum of Art
Joslyn Art Museum
Julian Theatre
Kalamazoo Symphony Orchestra
Kentucky Opera Association
Kimball Art Museum
Laguna Gloria Art Museum
Lake George Opera Festival
L.A. Public Theatre
Laura Dean Dancers and Musicians
Lexington Philharmonic Society
Living Stage of Arena Stage
Long Wharf Theatre
Los Angeles Actors' Theatre
Los Angeles County Museum of Art
Los Angeles Master Chorale
Los Angeles Philharmonic
Los Angeles Public Theatre
The Louisville Orchestra
Lubbuck Symphony Orchestra
Lyric Opera of Chicago
Lyric Opera of Kansas City
Madison Art Center
Madison Opera
Manhattan Theatre Club
Margaret Jenkins Dance Company
Marion Koogler McNay Art Museum
Mark Taper Forum
McCarter Theatre
Memorial Art Gallery, University of Rochester
Memphis Brooks Museum of Art
Memphis Symphony Orchestra
Mendelssohn Choir of Pittsburgh
Metropolitan Museum of Art
Metropolitan Opera
Michigan Opera Theatre
Milwaukee Art Museum
Milwaukee Ballet
Milwaukee Repertory Theater
Milwaukee Symphony Orchestra
Minneapolis Institute of Arts
The Minnesota Opera
Minnesota Orchestra
Mississippi Opera Association
Missouri Repertory Theatre
Mobile Opera, Inc.
Museum of Fine Arts, Houston
Museum of Fine Arts, Massachusetts

Museum of Modern Art
Nashville Symphony Association
National Symphony Orchestra
Neuberger Museum
Nevada Opera Association
New Dramatists
New Federal Theatre
New Orleans Museum of Art
New Orleans Opera Association
New York City Ballet
New York City Opera
New York Philharmonic
New York Shakespeare Festival
The Newark Museum
Northeastern Pennsylvania Philharmonic
Northlight Theatre
Norton Gallery and School of Art
Oakland Symphony
ODC/San Francisco formerly the Oberlin Dance Collective
Odyssey Theatre Ensemble
Old Globe Theatre
Omaha Magic Theatre
Opera Columbus
Opera Company of Mid-Michigan
Opera Delaware
Opera Memphis, Inc.
Opera Omaha
Opera Theater of Illinois
Opera Theatre of Rochester
Opera Theatre of St. Louis
The Orchestral Association
Oregon Shakespearean Festival Association
Oregon Symphony Orchestra
Pacific Northwest Ballet
Paul Taylor Dance Company
Pennsylvania Academy of the Fine Arts
Pennsylvania Stage Company
People's Light & Theatre Company
Perserverance Theatre
Philadelphia Drama Guild
Philadelphia Museum of Art
Philadelphia Orchestra
Philharmonic Orchestra of Florida
The Phillips Collection
Piedmont Opera Theatre, Inc.
Pierpont Morgan Library
Pittsburgh Ballet Theatre
Pittsburgh Opera
Pittsburgh Public Theater
Pittsburgh Symphony Orchestra
Playwrights' Center
Playwrights' Horizons
Portland Art Museum, Oregon
Portland Museum of Art, Maine
Portland Opera Association, Oregon
Portland Stage Company, Maine
Queens Symphony Orchestra
Repertorio Español
Repertory Theatre of St. Louis
Rhode Island Philharmonic
Rhode Island School of Design Museum of Art
Richmond Symphony Orchestra
Rochester Philharmonic Orchestra
Rockford Symphony Orchestra
Roswell Museum & Art Center
Sacramento Symphony Orchestra
St. Louis Art Museum
St. Louis Symphony Orchestra
San Antonio Symphony Orchestra
San Diego Symphony Orchestra
San Francisco Ballet
San Francisco Museum of Modern Art
San Francisco Opera
San Francisco Symphony
San Jose Repertory Company
Santa Barbara Museum of Art
Santa Barbara Symphony Orchestra
Santa Fe Opera
Sarasota Opera Association
Seattle Art Museum
Seattle Children's Theatre
Seattle Opera Association
Seattle Repertory Theatre
Seattle Symphony Orchestra
Shreveport Opera
Shreveport Symphony
Sioux City Symphony Orchestra
Skylight Comic Opera
Smith College Museum of Art
South Bend Symphony Orchestra
South Coast Repertory
Southeastern Center for Contemporary Art
Southern Illinois University Museum
Spoleto Festival, U.S.A.
Stage West
Stamford State Opera
Stanford University Art Museum
Syracuse Opera
Syracuse Symphony Orchestra
Syracuse Stage
Tacoma Art Museum
Telfair Academy of Arts and Sciences
Texas Opera Theater
Theater for the New City
Theatre Virginia
Theatreworks/USA
The Toledo Museum of Art
Toledo Symphony Orchestra
Tri-Cities Opera
Trinity Square Repertory Company
Trisha Brown Company
Tuscon Symphony Orchestra
Tulsa Opera
Twyla Tharp Dance Foundation
University of Iowa Museum of Art
University of Kentucky Art Museum
Utah Museum of Fine Arts
Utah Opera Company
Utah Symphony Orchestra
Vermont Symphony Orchestra
Virginia Museum of Fine Arts
Virginia Opera Association
Wadsworth Atheneum
Walker Art Center
Walnut Street Theatre
Walters Art Gallery
The Washington Ballet
The Washington Opera
Wheeling Symphony Orchestra
White Water Opera Company
Whitney Museum of American Art
Wichita Art Museum
Frederick S. Wight Art Gallery
Williamstown Theatre Festival
Winterthur Museum
Wisdom Bridge Theatre
Yale Center for British Art
Yale Repertory Theatre
Yale University Art Gallery

ASSOCIATE MEMBERS

American Federation of Musicians
American Music Center
Chamber Music America
Poets and Writers
Teachers and Writers Collaborative

Membership in the Alliance is available to all professional nonprofit performing and exhibiting arts institutions who meet the following criteria:

- perform or exhibit on a regular basis
- have a personnel core that earns a significant part of its income from the institution, with at least one full-time salaried administrator
- have a minimum annual operating budget of $50,000

The Alliance is supported solely by its membership which is assessed annually according to the formula: .0008 x total organizational income (both earned and unearned). The maximum annual membership payment is $2,600.

STATEMENT

SUBMITTED BY THE

AMERICAN ASSOCIATION OF MUSEUMS

Mr. Chairman, members of the House Ways and Means Committee, we appreciate the opportunity to submit a statement for the record. This submission is made on behalf of the American Association of Museums (AAM), and on behalf of this country's museum community. The AAM is an organization of over 10,000 members, including approximately 8,000 museum professionals and 2,000 art, history and science museums, historic houses, science and technology centers, acquariums, botanical gardens, arboretums, nature centers, zoos, children's museums, park museums and visitor centers.

On June 25, 1987, the staffs of the Joint Committee on Taxation and the House Ways and Means Committee released a set of options for the consideration of the members of the Ways and Means Committee in connection with its responsibilities under the 1988 Congressional budget resolution.

The museum community understands the enormous difficulty of balancing budgets in the face of limited revenues and unlimited responsibilities. Museum directors and officers are continually confronted with very hard choices about what must be done and how must it be financed. For that reason, we are sympathetic with the task before you and your colleagues on the Committee and in the Congress, Mr. Chairman.

Our statement to the Committee focuses on four of the proposals contained in the staff option paper. We hope to demonstrate to you why these four options will cause such significant problems for the museums of this country and their visitors that the options should be rejected. We are, of course, fully aware that other businesses, organizations and individuals will point to different options, and argue forcefully that they ought to be rejected. Nevertheless, we are confident that the unique role of museums in this country and the very substantial impact of the four options on their short and long term financial health will persuade you to adopt other options for purposes of meeting your FY88 budget responsibilities.

Three of the four proposals that we believe will cause significant hardships for museums deal with reducing the current modest incentives for making contributions to section 501(c)(3) organizations, and are described in section IID of the staff options. The fourth proposal is contained in section IIF and suggests imposing an excise tax upon the investment income of exempt organizations. The three proposals dealing with the tax treatment of contributions presumably are directed towards individual taxpayers, but they have a serious economic effect upon nonprofit institutions. The fourth proposal, we believe, goes to the heart of the principle of tax-exempt status. In our statement we will first discuss the three proposals relating to tax deductions for charitable contributions, and then discuss the excise tax proposal.

The three proposals dealing with the deductibility of charitable contributions include the following:

1. reducing individual tax preferences such as the itemized deductions by 10% across-the-board;

2. setting a floor under aggregate itemized deductions equal to 10% of adjusted gross income in excess of $100,000 for married taxpayers filing jointly; and

3. limiting the computation of itemized deductions to the 15% tax bracket.

The staff options do not indicate what impact the three proposals will have upon charitable contributions to tax-exempt organizations in general, let alone what impact they will have upon museums. We do know, however, that charitable contributions make up about 14.5% of all itemized deductions. We also know that approximately 85% of all the items in museum collections throughout this country (as measured by value) were the result of gifts. Thus, we believe it is a reasonable assumption to conclude that revising the tax code to reduce the incentives to make charitable contributions has, at the very least, the potential to affect museums very adversely.

These adverse impacts have very real costs to the nation. To the extent charitable contributions of tangible personal property--the objects that make up the museum's collection--are discouraged, items of cultural, historical and artistic importance remain in private hands rather than public hands. To the extent charitable contributions of cash and investment property are discouraged, the care and safekeeping of our cultural and historical heritage, irreplaceable art and vanishing species of plant and animal life is jeopardized.

We believe very strongly that any increase in revenue that might occur because of the proposed restrictions and limitations on charitable contributions is more than outweighed by the losses to the public that such changes will provoke. More than one-half billion visits per year are made to our nation's museums. These visits are eloquent testimony to the vast benefits that accrue directly to the American people by encouraging gifts to museums. The value of these benefits may not be as easy to quantify as the additional tax revenue to be raised by the enactment of the staff proposals. Nevertheless, Mr. Chairman, we ask you to consider what the Chicago Historical Society, the Bronx Zoo of New York or the Museum of Fine Arts of Houston would be like if even a modest number of the objects in their collections were eliminated. Surely, depriving the American people of the pleasure, beauty and knowledge represented by those objects and encouraging their private ownership is an inequity at least equal to any perceived inequities in tax policy that the current law may cause.

The proposal to impose a 5% excise tax on the investment income of section 501(c)(3) organizations is worthy of consideration, according to the staff option paper, because all organizations that benefit from government expenditures should participate in the effort to reduce the federal deficit. The option paper points out, however, that the beneficiaries of tax-exempt organizations will be hurt as a result of the reduction in funds available for programs. We believe, Mr. Chairman, that these dry statements of arguments pro-and-con do not capture adequately the real impact of the proposal upon tax-exempt organizations nor the role of such organizations in serving public needs.

The AAM recently conducted a survey of a sample of its members to determine the relative importance of various sources of financial support for museums. Approximately 60 museums responded to the survey. Of those that responded, endowment income (which is essentially equivalent to investment income) represented between 10 and 20% of annual financial support. In the main, this income is used to fund museum operations. It is critical to the fulfillment of the tax-exempt purpose of the museum. Any reduction in investment or endowment income will reduce on a dollar for dollar basis the programs of the museums. This means shorter hours of operation, fewer exhibits, and reduced outreach programs for the members of the community with the least access to museums.

The basis for conferring tax-exempt status is to encourage non-governmental organizations to undertake activities in the public interest. Museums support vigorous enforcement of the tax-exempt rules and loss of tax-exempt status for any organization that fails to act in the public interest. We believe strongly, however, that to impose a tax--whether income or excise--upon organizations that are acting in the public interest is to establish a precedent that will cause long term harm to our country. A tax will create permanent uncertainty in the minds of employees, beneficiaries and benefactors about the ability of tax-exempt organizations to commit all their resources to accomplishing the goals for which the organizations were established. Inevitably, the human and financial resources necessary to accomplish these goals will shrink. The result will be, in the case of museums, a society that knows less about its past and thinks less about its future. We suggest that such a society is ill-equipped to meet the responsibilities of freedom and democracy.

Museums, as well as other section 501(c)(3) organizations, have been buffeted by many changes in the tax law in recent years. Changes in the tax rate structure and the new appraisal standards have created substantial uncertainty in the museum community. The inclusion of gifts of appreciated property in the minimum tax and the elimination of the deduction for non-itemizers have already begun to reduce museum support. While the full impact of any one of these, let alone all of them, is not yet known, the potential for harm to museums is clear. Another set of rule changes will increase the likelihood of undermining the financial health of museums, as well as all other nonprofit organizations.

In conclusion, Mr. Chairman, we believe the staff option proposals that we have highlighted in our statement will, if adopted by you and your colleagues, create a society that is less enlightened and less educated. In the long run, this will make it more difficult for the Congress to carry out its duties and responsibilities. We hope that we have persuaded you.

American Ballet Theatre
890 Broadway
New York, New York 10003-1278
(212) 477-3030
Cable: Balletht,N.Y.

ABT

July 13, 1987

Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rostenkowski:

I am writing to you as Chairman of the House Ways and Means Committee to urge you not to support the changes in the tax laws that would adversely affect the arts community.

The proposals (1) to apply a 5% excise tax on net investment income of all tax-exempt organizations; (2) to lower, for individuals in the 28% tax bracket the rate of itemized deductions to 15%; and (3) the imposition of a new floor equal to 10% of an individual's Adjusted Gross Income are all proposals that would negatively affect monies that are donated to tax exempt Arts Organizations.

While it is important to close the federal budget deficit, it is very important that it not be done at the expense of such organizations as American Ballet Theatre.

American Ballet Theatre is, as you know, the resident Ballet Company of the Kennedy Center, and an important national treasure.

Sincerely,

Joy Silber

Joy Silber
American Arts Alliance
Representative
American Ballet Theatre

JS:mlv

American Foundation for the Blind, Inc.
15 West 16th Street, New York, New York 10011 (212) 620-2000 Founded 1921

HELEN KELLER
Counselor
1924-1968

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An Equal Opportunity Employer

July 28, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Rostenkowski:

The American Foundation for the Blind is seriously concerned about the potentially adverse effects on private nonprofit organizations of some of the revenue options prepared for the Committee on Ways and Means by the staff of the Joint Committee on Taxation.

If adopted by the Congress, these options would result in severe curtailment of essential services to blind persons being provided by these organizations at a time when budgetary constraints in Federally-assisted human services programs have already made it necessary for the private nonprofit sector to assume greater responsibility for meeting many human needs.

If the five percent excise tax on net investment income were to become law, our organization's annual loss of revenue devoted to program purposes would be between $200,000 and $300,000. We would have to reduce staff in a number of key program specialties, thereby depriving blind persons of vital services designed to reduce dependency and minimize the burden on the family. Enactment of this option would have the same deleterious effect on the programs of the several hundred local tax exempt agencies serving blind persons in all parts of the country.

Another serious concern would be the effect of enactment of the option reducing the deductibility of charitable contributions by taxpayers who itemize their deductions. Currently, our donor income is at a reduced rate compared to the previous year, and we are attempting to evaluate the impact of elimination of charitable deductions by nonitemizers. We are, therefore, understandably concerned about the potential effect on our program of any future reduction in deductibility of contributions by itemizers.

While we fully appreciate the urgent need to reduce the Federal deficit and assure fiscal stability to our nation, we sincerely believe that revenue measures which would result in curtailing provision of essential human services by the private nonprofit sector would be counter productive. We hope that you and your colleagues on the Committee on Ways and Means will give favorable consideration to our views and seek means of increasing revenues which will not adversely affect blind and severely visually impaired persons and their families.

Sincerely yours,

William F. Gallagher

William F. Gallagher
Executive Director

cc: Members, Committee on Ways and Means

345 EAST 47 STREET NEW YORK, N.Y. 10017 TEL. 212 705-7340

AMERICAN INSTITUTE
OF CHEMICAL ENGINEERS

HAROLD HANSEN
STAFF DIRECTOR
FINANCE ADMINISTRATION
AND CONTROLLER

September 1, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington DC 20515

Dear Mr. Chairman:

As the Ways and Means Committee reviews alternative approaches to implement the revenue increases called for in the fiscal year 1988 budget resolution, the American Institute of Chemical Engineers (AIChE) respectfully urges you to oppose tax revisions that would place additional burdens on nonprofit, 501(c)(3) organizations.

In particular, on behalf of the 53,000 members of AIChE, I strongly urge you to oppose imposition of an excise tax on the investment income of nonprofit organizations. 501(c)(3) organizations that have built reserve funds, whether by effective management or economic necessity, should not be penalized by a new tax. AIChE's investment income subsidizes programs that further the organization's nonprofit educational and scientific missions.

Congress originally exempted the investment income of nonprofit organizations from the unrelated business income tax (UBIT) because such income did not present problems of competition with business. The U.S. Dept. of Treasury, in recent testimony before the Ways and Means Oversight Subcommittee, supported the view that the investment income of 501(c)(3) organizations should remain tax exempt.

Moreover, the Subcommittee on Oversight recently held comprehensive hearings on the UBIT issue. Until the subcommittee has had time to complete its research and report, any action by the Ways and Means Committee on the UBIT matter would be preemptive and ill-advised.

Nonprofit organizations are still adjusting to the impact of the Tax Reform Act of 1986, such as reduced incentives for charitable contributions. An excise tax on the passive income of nonprofit organizations would further exacerbate this adjustment process. I urge you to reject the 5% excise tax proposal because it would undermine the valuable role played by nonprofit organizations in American society.

Thank you for your consideration of AIChE's views.

Sincerely,

Harold Hansen
Controller

American Red Cross

BERKS COUNTY CHAPTER
701 Centre Avenue
Reading, Pennsylvania 19601-2599
(215) 375-4383

Daniel Rostenkowski, Chairman
House Ways and Means Committee
Rayburn House Office Building
Washington, D.C. 20515

July 22, 1987

Dear Representative Rostenkowski:

I am writing to you in my capacity as Chairman of the Berks County Chapter, American Red Cross to comment on proposed tax legislation now before the House Ways and Means Committee. It appears that certain provisions in the proposed legislation would have a severe impact on the ability of any not-for-profit human service organization to raise critically needed funds for its programs.

You are, of course, familiar with options in the proposals that would lower charitable deduction rates for taxpayers who itemize, and impose a floor under aggregate itemized deductions for higher income taxpayers. Other proposals would reduce individual and corporate tax preferences in ways that would have a certain, negative impact on charitable contributions.

The proposal which causes us the most concern is one that would impose a 5% excise tax on net investment income of tax exempt organizations. This American Red Cross chapter, like so many charitable organizations, depends on investment proceeds to fund services to people in our community. Even a 5% reduction in the funds generated for these purposes would prove catastrophic.

I recognize that the Congress is under tremendous pressure to find additional revenue sources to deal with deficit reduction requirements. As the chief volunteer administrator of a busy Red Cross chapter, I know it can be a struggle to live within budget constraints. I hope the Congress will not cripple those organizations providing essential human services to millions of Americans when there are so many other options available to reduce the deficit.

Let me remind you that over the last few years the U. S. Government has challenged voluntary organizations to meet an even larger share of the human service needs in this country. I cannot believe the Congress will now create disincentives for contributors and tax these organizations which have risen to that challenge, while continuing to reduce the government's role in human services.

Such ruinously regressive proposals deserve nothing more than a quick trip to the scrap heap of ill-conceived legislation. Let the Congress uphold our nation's commitment to justice and humanity by affirming the millions of Americans whose voluntary efforts and contributions make those traditions a daily reality.

Sincerely,

Terry L. Brenner

Terry L. Brenner
Chapter Chairman

ASCE
AMERICAN SOCIETY OF
CIVIL ENGINEERS

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August 14, 1987

ASCE File: 2-22-2

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

As the Ways and Means Committee reviews alternative approaches to implement the revenue increases called for in the fiscal year 1988 budget resolution, the American Society of Civil Engineers (ASCE) respectfully urges you to oppose tax revisions that would place additional burdens on nonprofit, 501(c)(3) organizations.

In particular, on behalf of the 100,000 members of ASCE, I strongly urge you to oppose imposition of an excise tax on the investment income of nonprofit organizations. 501(c)(3) organizations that have built reserve funds, whether by effective management or economic necessity, should not be penalized by a new tax. ASCE's investment income subsidies programs that further the organization's nonprofit educational and scientific missions.

Congress originally exempted the investment income of nonprofit organizations from the unrelated business income tax (UBIT) because such income did not present problems of competition with business. The U.S. Department of Treasury, in recent testimony before the Ways and Means Oversight Subcommittee, supported the view that the investment income of 501(c)(3) organizations should remain tax exempt.

Moreover, the Subcommittee on Oversight recently held comprehensive hearings on the UBIT issue. Until the subcommittee has had time to complete its research and report, any action by the Ways and Means Committee on the UBIT matter would be preemptive and ill-advised.

Nonprofit organizations are still adjusting to the impact of the Tax Reform Act of 1986, such as reduced incentives for charitable contributions. An excise tax on the passive income of nonprofit organizations would further exacerbate this adjustment process. I urge you to reject the 5% excise tax proposal because it would undermine the valuable role played by nonprofit organizations in American society.

Thank you for your consideration of ASCE's views.

Sincerely,

Dan Barge, Jr.
President

THE ART INSTITUTE OF CHICAGO

MICHIGAN AVENUE AT ADAMS STREET/CHICAGO, ILLINOIS 60603/TELEPHONE: (312) 443-3600/CABLE: ARTI

July 13, 1987

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means Committee
U. S. House of Representatives
2111 Rayburn House Office Building
Washington, D. C. 20515

Dear Congressman Rostenkowski:

As a Trustee of The Art Institute of Chicago, the following proposals to increase federal tax revenues cause me great concern:

1) Creating a floor equal to 10% of an individual taxpayer's adjusted gross income in excess of $100,000 ($50,000 for single individuals) to be placed under the total of the taxpayers itemized deductions.

2) Reducing individual and corporate tax preferences.

3) Limiting the tax-liability reduction for top bracket individuals.

4) Imposing an excise tax on net investment income of exempt organizations.

The first three items above, by reducing the tax benefit of charitable giving, would, in all likelihood, reduce the flow of such support from the private sector. There has been an increasing indication of late that government on all levels expects the private sector to shoulder more and more responsibility for the funding of cultural institutions in this capacity. The first three proposals above would seem to seriously threaten the success of our efforts to garner increasing support from this source.

If we cannot count on increasing support from tax-supported sources and if the private sector incentives for charitable giving are substantially diminished that leaves increased earned income as our only means of successfully funding our programs in the future. The fourth proposal above attacks that one remaining artery of funding in a potentially devastating way. The cost of such a tax to The Art Institute of Chicago for fiscal 1986 would have been about $1.5 million dollars, and would have caused us to return to the federal government about 25% of the operating support that we received from city, state and federal sources.

Also, it appears to be a dangerous first step in attacking the basic concept of tax-exemptions for not-for-profit organizations that render services which otherwise would have to be financed out of tax revenues. The Internal Revenue Service has already restricted the earned income stream of certain not-for-profit organizations by taking a more aggressive stance in defining "unrelated business income" and imposing taxes upon such income. To then begin to tax investment income, including capital gains, could impose a hardship from which some institutions could not successfully recover.

I, and my fellow Trustees and staffmembers, appreciate the problems faced by the Congress in attempting to deal with the budget deficit. We hope, however, that you recognize the importance of organizations like The Art Institute of Chicago as a provider of education and cultural enrichment, as an employer (we employ over 1,000 people), and as a stimulus to the economy of our region and the vitality of our great city. We hope that you understand our concern over the proposed tax code changes enumerated above and that you will not support the adoption of these measures.

Sincerely,

Quinn E. Delaney

Similar letters were received from the following Trustees of the Art Institute of Chicago:

Warren L. Batts, Premark International
H. Laurence Fuller, Amoco Corporation
Charles A. Meyer (also for the Childrens Memorial Medical Center, the Cradle Society of Evanston, and Lake Forest College)
Edward Byron Smith, Northern Trust Company
Elizabeth B. Tieken (also for the Field Museum)

Similar letters were also received on behalf of the Chicago Academy of Sciences:

Allen E. Bulley, Jr., Bulley & Andrews
John H. Cynkar, Coopers & Lybrand
Christopher Dunn

Similar letters were also received on behalf of the John G. Shedd Aquarium of Chicago:

William J. Cullerton, The Cullerton Company
Benjamin F. Lenhardt, Jr., First National Bank of Chicago
Robert D. Krebs
J. Donald Higgis, Harris Bank
John Shedd Schweppe, M.D.
D. Gideon Searle, The Serafin Group

Similar letters were also received on behalf of the Lyric Opera of Chicago:

Edward Byron Smith, Northern Trust Company
Louise Smith, Northern Trust Company

Association of Governing Boards of Universities & Colleges
One Dupont Circle Suite 400 Washington, D.C. 20036 202/296-8400

President
Robert L. Gale
Executive Vice President
Richard T. Ingram
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former: Iowa State Board
of Regents

July 13, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U. S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing on behalf of the Association of Governing Boards of Universities and Colleges, which represents nearly 27,000 individuals who serve as members of boards or regents for over 1600 colleges and universities.

College and university trustees and regents typically have primary responsibility for finding private and public support for their colleges and for the management of financial assets of their institutions. Because of this responsibility, trustees are particularly sensitive to the tax environment in which they must operate. Recent changes in the income tax structure, combined with pressures to reduce federal and state spending on higher education programs and considerable adverse governmental and public commentary on the cost of higher education are of monumental concern to trustees. These financial worries have been heightened by several proposals included in the document, Description of Possible Options to Increase Revenues recently prepared by the staffs of the Joint Committee on Taxation and the Committee on Ways and Means.

Of particular concern to college trustees is the proposal to levy a 5% excise tax on net investment income of organizations that are presently exempt from federal income tax under IRC Section 501(a), which includes educational institutions. Our concerns with the proposal are both practical and philosophical.

First, the excise tax would reduce the funds currently available to colleges and universities for their educational and research operations at a time when these institutions are already under increasing financial pressure.

Secondly, the excise tax would be the first breach in the long-standing concept of tax exemption for institutions operating for the public good. This concept has its roots in this country's unique commitment to private action for public good, which has brought us so much and needs encouragement rather than discouragement. Any increasing direct government involvement in these activities is a direction that alarms many trustees and regents.

There are other items in the "options document" that cause concern as they would impede private fund-raising and financing efforts for higher education institutions.

- o Reduction in corporate and individual tax preferences [D(2)].
- o Imposition of a floor under aggregate itemized deductions for higher income taxpayers [D(3)(2)].
- o Limitation on tax-liability reduction for top-bracket individuals [D(3)(3)].
- o Change in allocation rules for partnerships [D(10)(b)].
- o Alternative minimum tax treatment of higher education facilities bonds [D(15)].

AGB urges you to oppose the excise tax option, and to oppose the other options listed above until broader study and discussion is possible.

We commend to your attention the letter sent by the American Council on Education on behalf of the higher education community. We would be happy to respond to any questions you or your staff have about our position, or to participate in further research or discussion of the issues involved.

Sincerely,

Robert L. Gale

Robert L. Gale
President

The Augustana Home Foundation

1007 East Fourteenth Street, Minneapolis, Minnesota 55404 Telephone: (612) 333-1551

The Augustana Home — Since 1896 Providing a Christian Home for the Aging

July 16, 1987

Representative Daniel Rostenkowski
House Ways and Means Committee, Chairman
1102 Longworth House Office Building
Washington, DC 20515

Dear Representative Rostenkowski:

The staff options report of the Joint Committee on taxation proposes to allow charitable deductions only at a 15% rate, place a 5% excise tax on investment income of nonprofit organizations, and make other tax changes significantly affecting our ability to raise funds. In our case, the proposed changes have a negative impact on care for the elderly.

The federal government has long held a partnership with charitable organizations in providing human services. The government has cut spending on human services, reduced contributions through the Tax Reform Act of 1986, and pleaded with charitable organizations to pick up an increased burden in the partnership. Now the federal government is proposing to transfer more of its service load and further undermine our ability to raise money.

We ask you to reject provisions of the staff options report affecting tax incentives for charitable contributions and establishing additional taxes on non-profit organizations.

Sincerely,

Chesley Strom

Chesley Strom
Foundation Director

CHS/dj

Corporate Member Churches:
Augustana Lutheran Church, Bethlehem Lutheran Church, Calvary Lutheran Church, Diamond Lake Lutheran Church, Emanuel Lutheran Church, Gustavus Adolphus Lutheran Church, Hope Lutheran Church, Luther Memorial Lutheran Church, Messiah Lutheran Church, St Paul's Lutheran Church, Trinity Lutheran Church of Minnehaha Falls, Zion Lutheran Church

Baltimore Symphony Orchestra

David Zinman, Music Director • Frank Baker, Jr., Chairman • Calman J. Zamoiski, Jr., President • John Gidwitz, Executive Director

July 14, 1987

(301) 783-8010
Writer's Direct Number

The Honorable
Dan Rostenkowski
Chairman of the House
Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

As Executive Director of the Baltimore Symphony Orchestra I am writing to express grave concern over certain proposals currently being considered by the Ways and Means Committee.

The implementation of an exise tax on non-profit organizations would be an extremely serious and damaging step. To do so would in many ways break faith with many tax payers who have contributed their funds to the institutions with the understanding that those funds are tax-free and will not be taxed either in the present or the future. The implementation of such a tax would deprive arts organizations of income upon which they rely, during an era when the Federal Government has failed to continue to fund arts organizations even at the modest level that had been in place six years ago (in real dollar terms). Furthermore, the initiation of applying Federal taxes to tax-exempt organizations would open a Pandora's box which could easily lead to the extinction of the non-profit system in this country.

The proposal to lower the deduction rate from 28% to 15% for itemizers would also have very serious consequences. While the non-profit community was negatively affected by the recent tax bill and the lowering of tax rates (and hence the lowering of incentives for giving), we all understood the desirability for the nation of lowered tax rates. However, a specific proposal to compromise the full value of deductions, would be unduly harmful to the nation's arts and charitable institutions. The same arguments apply to the proposal to establish a floor on an individual's adjusted gross income.

The entire non-profit community is alarmed and distressed that such proposals as the above three are even under consideration. We urge that they not be proposed to the Congress.

Sincerely,

John Gidwitz

Joseph Meyerhoff Symphony Hall • 1212 Cathedral Street • Baltimore • Maryland • 21201-5545 • Telephone 301-783-8100 • Telex No. 87770 BAL

BECKLEY CHILD CARE
CENTER
P. O. Box 250
Beckley, West Virginia 25802-0250
304/252-8508
A Facility Related To The United Methodist Church in West Virginia

August 4, 1987

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D. C. 20515

Dear Honorable Rostenkowski:

The purpose of this letter is to implore you to carefully consider the potential negative impact of some proposed Congressional Staff tax options on the voluntary sector.

While we are only one small voluntary residential child care facility, I think that what is happening here is indicative of what is happening everywhere.

We are attempting to deal with some critical National issues related to our "at risk" children. We should all be appalled at what we are allowing to happen to many of our Nation's youth. To make my point, let me provide you with the following statistics:

-- One in four lives in poverty.

-- One in five is at risk of becoming a teen parent.

-- One in six has no medical coverage.

-- One in six live in a family where neither parent has a job.

-- One in four will not graduate from high school.

-- Better than one in four alcoholics/drug addicts are youth.

Add to these numbers the facts that child abuse and family breakup are so high and it is little wonder that our Nation's youth, and therefore our Nation, are in jeopardy.

Now let me give you some important information about our Agency and the crisis that we currently face.

-- Due to Federal spending cuts and the lack of resources in West Virginia, we are receiving payments equal to approximately 65% of our actual cost.

-- Presently, we are able to raise, through private contributions, approximately 20% of our budget.

-- Approximately 15% of our budget is coming out of Agency reserves that are rapidly being depleted.

Unless we are able to secure additional funding by the end of 1988, our reserves will be totally wiped out and we will be forced to close our doors.

In order for us to continue our work it is extremely important that Congress not do anything else to reduce our ability to raise funds. Quite frankly I am most confused by Congressional actions in recent years. On the one hand you cut funding for services to children and ask the voluntary sector to make up the difference. On the other hand you pass tax legislation that greatly inhibits our ability to raise money. This kind of thinking is jeopardizing our ability to serve troubled youth.

In my opinion, further actions to reduce charitable contributions and such things as imposing an excise tax on the net investment income of non-profits makes no sense.

The voluntary sector in America is one of our richest traditions. Therefore, please do what you can to encourage a strong and viable voluntary sector instead of weakening it.

In closing, I would also like to encourage you to develop a National strategy to meet the needs of our youth. At present, there are just too many youth in jeopardy and it is not in our National interest to allow this to continue.

Thank you in advance for considering my remarks.

Sincerely,

Harry A. Burgess

Harry A. Burgess
President

HAB/efh

Bethany College

Theatre Program
Bethany College
421 N. First
Presser Hall
Lindsborg KS 67456
913-227-331x257

Rep. Daniel Rostenkowski Chair
House Ways and Means Committee
2111 Rayburn House Office Building
Washington DC 20515

22 July 1987

Dear Chairman Rostenkowski:

COMMITTEE ON
RECEIVED
JUL 27 1987
WAYS AND MEANS

I urge you to sway the House Ways and Means Committee to vote down two proposals:

1. An excise tax of 5% on the net investments income of all religious, charitable and educational organizations.
2. Reductions in the charitable deductions itemizers which would allow deductions at the 15% level and impose a floor under aggregate itemized deductions equal to 10% of income over $100,000 on joint returns or $50,000 on single returns.

Our democracy is dependent upon an educated electorate. The bill will damage my institution and all privately funded centers of higher learning around the country. We are dependent upon contributions. To cripple us in our development of capital, is to dam up the life blood of the country.

I realize that you are responsible for weighing many factors of which I am unaware. However, keep in mind the first sentence in this paragraph and consider the United States' relationship with our chief economic and political competitors. Our best hope is in developing an insightful and reasonable electorate who can vote with confidence and with an understanding of current issues and who also can excel in chosen fields of economic endeavor. By voting to reduce the funding to educational organizations, you are voting to reduce the United States as a presence in the world theatres of politics and economics.

Again, I urge you to work against and to vote down the excise tax and the reductions in charitable deductions. The future of our nation hangs in the balance.

Sincerely,

Robert L. Amsden
Robert L. Amsden,
Assistant Professor of Theatre

Bethany College / Lindsborg, Kansas 67456 / (913) 227-3311

THE BODY POLITIC THEATRE

July 13, 1987

The Honorable Dan Rostenkowski, Chairman
Ways and Means Committee
U. S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

We understand that the House Ways and Means Committee is looking at a number of options to increase federal revenues.

Please, in your deliberations, be aware of the needs of not-for-profit arts organizations such as the Body Politic Theatre, Chicago's oldest off-Loop company.

A decision to apply a 5% excise tax on net investment income would have a detrimental impact on our ability to establish a cash reserve and endowment fund.

Any decision which lowers the rate for itemized deductions has serious ramifications on our ability to engender support from individuals. With governmental funding severely cut back, with corporations NOT being encouraged to make charitable contributions, individuals are our only source for expanding our base of contributed support.

A decision to impose a percentage limitation on the giving of individuals whose adjusted gross income is in excess of $100,000 would certainly discourage the contribution of major patronage gifts to arts organizations.

Not-for-profit theatres are dependent on your committee to help establish an atmosphere in which charitable giving is encouraged not discouraged.

Thank you for your consideration.

Sincerely,

Sharon Phillips

Sharon Phillips
Managing Director

SP/rb

"The theatre
is a
body politic
and the art of it
a single art
though the
contributors to it
must be many."
- Harley Granville-Barker

Pauline Brailsford
Artistic Director

James O'Reilly
Director of Artistic Development

Sharon Phillips
Managing Director

The Body Politic Theatre
2261 North Lincoln Avenue
Chicago, Illinois 60614-3717
Offices 312 348-7901
Tickets 312 871-3000

A not-for-profit
professional theatre ensemble

BOYS TOWN
"He ain't heavy, Father ... he's m' brother"

August 4, 1987

Congressman Daniel Rostenkowski
Chairman
House Ways and Means Committee
1019 Longworth Building
Washington, D.C. 20515

Dear Chairman Rostenkowski:

It has recently been brought to my attention that a staff document of the Joint Committee on Taxation is recommending that the charitable deduction for itemizers be cut by up to 50% and a 5% excise tax be imposed on net investment of all tax exempt organizations. The latter proposal is particularly disturbing to us because we depend on investment income from a 46-year-old, carefully nurtured, board-designated endowment fund to pay for the care and treatment of half of the 10,000 children who are part of our annual residential, educational, or medical programs.

But I am especially astonished by the proposal--and the rationale that I suspect is behind it--to cut the charitable deduction. Aristotle has said that "A society is better ordered when giving is more structured than taking." Am I too cynical to suggest that these proposals were written by yuppies, notorious for their own penurious posture towards charities--who are trying to make Scrooges of us all. Bah, Humbug to both ideas!

Sincerely yours,

Fr. Val Peter

Father Val J. Peter, JCD, STD
Executive Director

VJP:rl

Father Val J. Peter, JCD, STD, Executive Director (402) 498-1111

FATHER FLANAGAN'S BOYS' HOME BOYS TOWN, NEBRASKA 68010

Buckner Baptist Benevolences
R. C. CAMPBELL • PRESIDENT

Weldon W. McElreath, Administrator
Buckner Baptist Children's Home
129 Brentwood Ave./Lubbock, Texas 79416/AC 806-795-7151

August 3, 1987

The Honorable Daniel Rostenkowski
Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Rostenkowski:

I have recently been made aware of the congressional staff options paper on possible new taxes such as:

1. 50% reduction in charitable deductions for itemizers.
2. 5% excise tax on non-profit organizations.
3. Other provisions that would certainly diminish tax incentives on charitable contributions.

The negative impact of the above restrictions on donors would affect charitable givings between $8 - 9 billion annually. The possibility of the new changes come at the very time the government has been transferring to non-profits greater responsibility for services and the same government reduced dramatically its financial support for such services. The Tax Reform as of 1986 made fund raising more difficult, and now almost unbelievably, along comes a Joint Committee report that serves up the idea of still further restrictions on charitable giving.

I implore you to establish at the outset a principle and a determination not to do anything further to reduce the capacity of voluntary groups such as Buckner Baptist Children's Home to fulfill their public service. The government asked us to take a larger share of human services and then you dealt us an inordinate share of the burden of tax reform. It is fair to conclude, that the non-profit sector is continuing to do their job and carrying their share of the load and that the government should be more cognizant of this fact and stop any further efforts to make the job still more difficult for such agencies. Enough is enough!

Sincerely,

Weldon W. McElreath

WWM/dr

• FORMERLY BUCKNER ORPHANS HOME *Chartered 1879* / AN AGENCY OF THE BAPTIST GENERAL CONVENTION of TEXAS

PO BOX 2824 LUBBOCK TEXAS 79408 PHONE (806) 762-0481

THE Children's Home OF Lubbock

FLOYD I STUMBO, EXECUTIVE DIRECTOR

August 3, 1987

The Honorable Daniel Rostenkowski
Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Rostenkowski:

It has come to my attention that you and other members of the House Ways and Means Committee have received a Congressional Staff Options Paper on possible new taxes. This paper suggests altering the tax laws to :

1. Provide a fifty percent reduction in charitable deductions for itemizers.
2. Establish a five percent excise tax on net investment income of all tax exempt organizations.

I understand there are other suggestions which may have a somewhat smaller impact on the charitable dollars now available for not-for-profit organizations.

I am greatly distressed for several reasons. First, the fact that there are those in government who appear to have a very poor understanding of the importance of the private sector to our American way of life. I am also distressed to think about what this will mean to our program of care for children and families at the very time when our services are needed most. On the average, this agency (The Children's Home of Lubbock) serves between 275 and 300 abused and neglected children each year. We have a modest budget of 1.5 million dollars annually to provide care to an average of 110 children on any given day.

The state of Texas currently reimburses us at the rate of only twenty-five percent of the actual cost of care for those children they officially refer. Virtually all the other children we serve (about 70 percent of total) have no public support but are often in care because an investigative worker for the state asks us to provide care without any hope of the twenty-five percent of the cost for those they deem eligible for reimbursement.

In all candor I must tell you that because of the 1986 Tax Reform Act, coupled with the very distressed economy for this part of the country, we are giving care to fifteen percent fewer clients than we did five years ago.

I suppose I could shrug my shoulders and say, "so what", we'll just do what we can and not raise our voice. In all good conscience I cannot take that position because I have looked into the eyes of children whose lives will be forever diminshed if we of the private sector do nothing.

I must confess though, that after thirty years of administrative work in a priviate not-for-profit child care agency, that has given care to more than three-thousand young people, I have trouble understanding who in Washington believes it's really important to save the children of our land.

I pray that I can count on you to help.

Sincerely,

Floyd I. Stumbo
Executive Director

FIS:sr

Caring Since 1900

Carole E. O'Neal, A.C.S.W.
Executive Director

THE CHILDREN'S HOME OF CROMWELL

July 27, 1987

Rep. Daniel Rostenkowski
Chairman
House Ways and Means Committee
Room 2111
Rayburn House Office Building
Washington, D.C. 20515

Dear Rep. Rostenkowski:

Enough is enough. Non-profit organizations have taken more than their fair share of the burden of federal budget cuts and reductions in monies from reduced tax incentives or contributions to charity.

The gentlemen of the TITANIC who gave their lives so that some women and children could be saved, gave priority and substance to the motto: "Women and children first". Now, the Joint Committee is making a mockery of that motto by placing the welfare of millions of women and children in jeopardy through its proposal to place limits of 15% upon charitable deductions.

For the past seven years, the Reagan administration has reduced direct federal support to the services of voluntary organizations by 27%. For private giving to make up that shortfall, it would have to grow at a rate of 7 to 8 times higher than it has in recent years.

The Tax Reform Act of 1986 made raising privately donated funds more difficult. For the House Ways and Means Committee to even consider slashing more from the tax deductibility of donated funds to private tax exempt organizations is absurd in concept and cruel should such an idea be executed.

I implore you to establish a determination not to further erode the capacity of voluntary groups to fulfil their public services missions. The Reagan administration previously has asked the private sector to take a larger share of the human services burden. To then deal it an inordinate share of the tax reform burden is to tax non-taxable income. As stated at the beginning of this letter: Enough is Enough!

Cordially,

Carole O'Neal

Carole O'Neal, ACSW
Executive Director

CEO:cmp

60 Hicksville Road, Cromwell, Connecticut 06416 203/635-6010

CHURCH

The Church
Pension Fund

800 Second Avenue
New York, NY 10017
212-661-6700
800-223-6602

Walter F. Donnelly
Executive Vice President

STATEMENT

PREPARED FOR SUBMISSION TO THE COMMITTEE ON WAYS AND MEANS

I am the Chief Financial Officer of The Church Pension Fund which was created by the Episcopal Church in 1913 and chartered by an Act of the New York State legislature in 1914 for the purpose of establishing and administering a retirement pension system for the aged and disabled priests of the Church. It is recognized by the Treasury Department as a tax-exempt religious organization.

My comments deal with two of the possible options for increasing tax revenues in connection with the fiscal year 1988 Budget Resolution now being considered by the Ways and Means Committee:

(1) An excise tax on net investment income of churches;

(2) Repeal of the exclusion (from an individual's taxable income) of the employers' cost of providing health care coverage to employees.

Each of these revenue options would diminish the ability of "church plans" such as ours to fulfill our contractual commitments to pay in the future the retirement pensions earned by our clergy and layworkers in the past. The facts are presented below and in Exhibit A, attached.

Section II. F. 2.
Excise Tax on Churches

Before the Committee votes to impose an excise tax on the net investment income of all tax exempt organizations, specifically including churches and church pension plans exempted from ERISA, it should consider these two facts:

(1) Many taxable organizations are not now paying income taxes on all of their net investment income. Please see Exhibit A for examples.

(2) Most tax-exempt organizations make no profits and therefore would pay no tax on their investment income even if they were subject to income taxes. On the other hand, the excise tax option under consideration would tax a church or other tax-exempt organization but would not tax a taxable business organization with identical investment income under identical circumstances, i.e. no net profit for the year.

In the Service of the
Episcopal Church

Section II D. 5. a. (1)
Income Tax on Employee Benefits

This option would limit the excludability from an employee's taxable income of the cost of employer provided health care coverages. Unless amended to incorporate a "church plan" exemption similar to that provided for church benefit plans by ERISA, this would have a chilling effect on existing and future health care programs. For example, The Church Pension Fund has developed a new plan to protect retired clergy and their spouses against catastrophic health care costs which are not covered by medicare or other government programs. We have announced to the Church that the protection will be implemented on January 1, 1988. The Dioceses and the parishes will soon be preparing their 1988 budgets anticipating that the new coverages will be in place by that date. Now, the new tax burden that option, if enacted, would place on the clergy will make it necessary for us to reevaluate and possibly revise our plans.

Of overriding importance to the Churches with regard to each of these additional tax options is the fact that the resources of the Church would be diverted from its mission. To the extent that the mission of a Church can be perceived as divisible, its two major components are:

(1) Worship of God

(2) Service of mankind

The Congress would undoubtedly find it constitutionally impossible to interfere with the former and financially counter productive to interfere with the latter. The Staff Report clearly and fairly points out that the existing exemption recognizes that:

(a) "...many exempt organizations perform functions that lessen the burdens of government that otherwise would have to be financed out of tax revenues..."

(b) "...promote the general welfare of the public at large..."

(c) "...contribute to the economic well-being of the country through promotion of business and labor."

(d) "The imposition of the tax would reduce the funds available to and needed by charities, social welfare organizations, and other exempt organizations in carrying out their nonprofit activities. The tax thus would adversely affect the beneficiaries of these programs, including the poor, the elderly, students, hospital patients, the environment, etc."

It is of utmost importance that the Committee be informed of the extent to which these negative economic factors in (a) (b) (c) and (d) above have been reflected in the "Estimated Revenue Effects" appearing in the pertinent sections of the Committee document now under consideration.

Respectfully submitted,

Walter F. Donnelly

Walter F. Donnelly
Executive Vice President

EXHIBIT A

Examples of Taxable Organizations Not Required to Pay Taxes on Net Investment Income

---

- Regulated investment companies pay no income tax if they distribute all investment income to their shareholders.

- Corporations pay taxes on only 15% of investment income derived from dividends they receive from holdings of preferred stock.

- Corporations pay no income tax (hence no tax on investment income) for years in which they have no net income.

- Banks, insurance companies and other financial institutions pay no income tax on substantial amounts of investment income derived from investments in muncipal bonds.

- Depreciation, depletion, and other permissible tax accounting techniques enable businesses in many industries to eliminate or continually defer taxable income to future years, frequently offsetting investment income which otherwise would be part of the corporations' net taxable income.

THE CINCINNATI COMPANIES
INSURANCE

JOHN J. SCHIFF
Chief Executive Officer

CINCINNATI FINANCIAL CORPORATION

P.O. BOX 145496
CINCINNATI, OHIO 45214-5496
(513) 870-2000

July 30, 1987

The Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
House Office Building
Washington, D.C. 20515

Dear Dan:

The Cincinnati Art Museum, The Salvation Army, and a number of my friends, are tremendously concerned about, and opposed to, Congress' interest in imposing various forms of tax on charitable organizations and art and cultural institutions.

The tremendous productive economy in the United States has conscientiously supported our charitable and not-for-profit institutions. Only through the largesse and kindness of millions of responsible citizens have we been able to attend to the needs of cultural institutions and charity.

To impose a 5% excise tax on investment income or to reduce the itemization that charitable gifts affect personal income would tremendously hurt the not-for-profit institutions in this country.

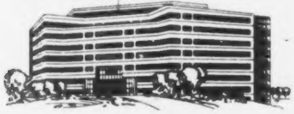
Thank you for listening.

Best wishes.

Respectfully,

John J. Schiff

JJS/dc



C.A.U.S.A. Inc.
Connecticut Association for United Spanish Action
c/o C.R.T.
3580 Main Street
Hartford, CT 06120
(203) 549-4046

August 11, 1987

The Honorable Dan Rostenkowski
Chairman
Ways and Means Committee
1102 Longworth House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

It has been brought to my attention that the staff of the Joint Committee on Taxation have proposed a number of changes in the tax laws which if enacted would deter contributions to non-profit organizations by an estimated $6.7 billion. These would be in addition to those in the Tax Reform Act of 1986 alone which had the effect nationally of reducing contributions to non-profits by about 15% or $11 billion.

Our agency serves as a technical assistance resource to 17 non-profit local Hispanic service agencies. A substantial portion of their funding comes from local corporations, foundations, United Ways, and individual high income donors. If your staff's suggestions are carried out into law the ability of these agencies to serve several thousand low-income Hispanics would be diluted considerably.

Why don't you guys in Congress stop savaging the non-profits and acquire the courage to cut the swollen, waste-ridden Department of Defense budget and eliminate the pork-barrelling water projects and other unnecessary appropriations that go on? And above all why don't you bite the bullet and enact some of the taxes that were in effect before President Reagan imposed his voodoo economics on a complaisant Congress and an ignorant electorate?

Sincerely yours,

Max Doverman

Max Doverman
Acting Executive Director

cc: Barbara Kennelly (CT-1)

md:ef

STATE OF CONNECTICUT
COMMISSION ON THE ARTS

566-4770

July 27, 1987

The Honorable Dan Rostenkowski, Chair
Committee on Ways and Means
U. S. House of Representatives
Washington, D.C. 20515

Dear ~~Representative Rostenkowski~~: Danny

Please oppose the tax options before the House Ways and Means Committee which would tax the investment income of nonprofit organizations and reduce the value of charitable contributions.

I am referring specifically to the options to:

1) tax net nonprofit interest income at 5% and,
2) change the valuation of charitable deductions to
    a) reduce the value of itemized deductions by 10%;
    b) impose a floor of 10% income above $50,000 on the total amount of itemized deductions;
    c) restrict the value of itemized reductions for upper-income taxpayers to the lowest rate (15%).

The nation's nonprofit arts organizations will be severely hurt by any of these changes, particularly after last year's passage of a tax reform law which may prove to be a disincentive to contributors. In Connecticut, the average nonprofit arts organization receives 12.6% of its income from individual private contributors, annually.

Thank you for your consideration and support for the arts. If I can provide further information, please let me know.

Sincerely,

Susa

~~Mrs. Peter G.~~ Kelly
Chairman

SRK:ep

c: Representative Barbara B. Kennelly

COUNCIL FOR
Special Services
CAPITAL CITY AREA
P.O. Box 1575
1028 E. High Street
Jefferson City, Missouri 65102
(314) 634-3070

July 23, 1987

The Honorable Daniel Rosetenkowski
Chairman, House Ways and Means
1102 Longworth House Building
Washington, D.C., 20515

Dear Mr. Rostenakowski,

We are writing because of our concern about proposed changes in laws that affect non-profit human services agencies. These would diminish tax incentives for charitable contributions for such agencies as our and would severely damage the financial support we need to maintain our services.

Our agency is a member of Jefferson City Area United Way and is dependent upon it for financial support. Our program is two-fold: a pre-school for some 40 children with developmental delays who need the speech, physical and occupational therapy as well as pre-school education which we provide; and a recreation program for youth and adults who are retarded or handicapped, as well as a summer camp for them.

Either of these alternative pieces of legislation would be damaging to such agencies as ours. The 50% reduction on income tax for gifts to such agencies as United Way would cut our support badly, even more than last year's requirement for itemization. The other alternative we trust you will also oppose. The levying of a 5% excise tax on investment income of the non-profit, tax-exempt organizations would also be damaging to the financial structure of these agencies. If we are to continue to carry on these programs for the handicapped, the poor, the elderly, and the victims of abuse and disease, we must not be penalized by such government action.

We ask that neither of these two pieces of legislation be approved as they would undermine efforts to meet responsibilities toward those who need our help.

Sincerely yours,

Thelma Kratochvil

Mrs. J.R. Kratochvil, President

DALLAS
THEOLOGICAL
SEMINARY

OFFICE OF THE PRESIDENT

August 21, 1987

The Honorable Dan Rostenkowski, Chairman
Way and Means Committee
U.S. House of Representatives
2111 Rayburn House Office Building
South Capitol Street & Independence Avenue, S.E.
Washington, D.C. 20515

Dear Congressman:

I understand the House Ways and Means Committee will be working until September 29 on the budget reconciliation in the area of raising revenue. I want to register my strong opposition to reductions in tax incentives for those who contribute to charitable organizations.

The future of our colleges, universities, and seminaries is dependent on gifts from the American people. Charitable organizations have already been severely affected by the Tax Reform Act of 1986. Additional action diminishing tax incentives would have a devastating effect on all non-profit organizations.

Also, charitable institutions have been a major factor in upholding moral principles and in holding down crime with its expense to society and to the government. I believe it is poor economy to reduce support for activities which are in the best interest of our nation.

Cordially,

Don Campbell

Donald K. Campbell
President

DKC:em

3909 SWISS AVENUE DALLAS, TEXAS 75204 PHONE (214) 824-3094

the
David & Margaret
Home, Inc.

August 6, 1987

Daniel Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman:

The Tax Reform Act of 1986 has made raising funds more difficult for David and Margaret Home and for many other agencies working with troubled youth. The elimination of the charitable deduction for non-itemizers, the inclusion of gifts of appreciated property as subject to an alternative minimum tax have already caused a significant impact on non-profits. Is there no end to what burden we must carry?

I hope you believe, as we do, that it is not fair for the federal government to ask us to assume greater financial responsibility for the delivery of human services and at the same time to subvert our ability to raise those funds. I strongly urge you to not vote for any further legislation that would lessen tax incentives for charitable contributions. In particular I implore you not to vote for the imposition of a 5% excise tax on the net investment income of all tax-exempt organizations as well as a no vote on any reduction in charitable deduction for itemizers.

In 1987 the courts will place some 250 girls, of whom 80% are incest victims, in our care and treatment programs. Our therapy staff has this year increased from six to nine, two part time psychiatrists have also been added, and we are double-staffing six of our twelve residences. All of this is to meet the needs of an increasing number of girls arriving with very serious emotional problems. Any reduction in financial support from donors would necessarily cut many programs! I urge you and your colleagues to find ways to increase and not decrease tax incentives.

Thank you for your attention to this very pressing matter.

Sincerely,

Henry Whitney

Henry Whitney, M. Div., MSW
Executive Director

HW:nb

Dayton
Philharmonic
Orchestra
Association

Montgomery County's Memorial Hall
125 East First Street
Dayton, Ohio 45402-1275

(513) 224-3521

July 21, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

On behalf of the Dayton Philharmonic Orchestra Association I am writing to express my concern about some of the options which are being considered to help close the budget deficit, including a proposed 5% excise tax on net investment income of all tax-exempt organizations while lowering the rate for itemized deductions for individuals in the 28% tax bracket to 15%, and imposing a new floor for high income tax payers that would reduce their ability to claim deductions on their itemized deductions for charitable contributions.

Though the current administration has insisted on reduced government support for the non-profit sector and increased private support for non-profit institutions in the country the administration has continually tried to thwart its recommended private sector growth by impacting the tax benefits of supporting this country's charitable institutions. The true impact on the revision of the tax code on non-profit institutions will not be realized for three to four years, and I strongly encourage you not to make further revisions that may have an increasingly negative impact on the non-profit institutions of this country to grow and even survive.

Sincerely,

David L. Pierson

David L. Pierson
General Manager

DLP:clc

ENRICHING YOUR LIFE WITH MUSIC

Willard DeGroot
665 PICACHO LANE • SANTA BARBARA, CALIFORNIA 93108

July 21, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways & Means Committee
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Rostenkowski:

Understandably, the Ways and Means Committee is looking for new sources to increase federal revenues. This is very important, but I hope it is not done at the expense of many needy, under-financed, nonprofit organizations. As a trustee or director of the Orthopedic Hospital in Los Angeles; the Claremont Graduate School in Claremont, California; Hope College in Holland, Michigan; the Santa Barbara Museum of Art, and the Huntington Library in San Marino, California, I know first-hand how much they need every penny of their current contributions and income.

Anything that is done which will impact on contributors, whether in a reduction of the amount of contribution which will be permitted or imposition of the extra tax based on the individual's adjusted gross income, will have a serious effect on such contributors. This is especially worrisome in view of the United States government curtailing in many areas expenditures which previously gave considerable support to these organizations.

We urge you to evaluate each proposal and the effect it would have on these organizations which are so important to the education of our future generations and the quality of life of millions of citizens.

Yours very truly,

Willard G. DeGroot

WGDG/jwr

DETROIT SYMPHONY
GUNTHER HERBIG
Music Director

Ford Auditorium, Detroit, MI 48226 (313) 567-9000 Telex: 231230 DETSYMORCH

Oleg Lobanov
President

July 27, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Rostenkowski:

It has come to my attention that the House Ways and Means Committee is currently considering several options to increase taxes to help close the budget deficit. I believe three of the options under consideration (the 5% excise tax on net investment income of all tax-exempt organizations; lowering, for individuals in the 28% tax bracket, the rate for itemized deductions to 15%; a new floor for high income taxpayers reducing their ability to claim itemized deductions for charitable contributions) would be particularly damaging to the nonprofit community.

I am gravely concerned about the impact of any and all of these options upon the support which is extended to nonprofits through charitable donations. To lower the rate for itemized deductions to 15% for individuals in the 18% bracket effectively negates the value of the donation to the donor. So also does the new floor for high income taxpayers. Both of these options further discourage donors in all categories and at all giving levels from the persuasion of giving.

To impose an excise tax on the net investment income in effect penalizes nonprofits with sizeable endowment and investment support. Traditionally, endowments have been considered the permanent financial base which provide financial stability to art organizations. The Detroit Symphony has worked hard in recent years to raise its endowment to this very end. An excise tax on investment income would eliminate or severely reduce the value of an enlarged endowment, and contribute to the continued financial fragility of the entire nonprofit community.

I urge you to support the defeat of each of these proposals, and to work to protect and defend the status of the nonprofit sector.

Sincerely,

Oleg Lobanov

OL/CMF/bps:et

A WRITTEN STATEMENT

BY ELLEN F. COOKE

TREASURER OF

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA

I am Ellen F. Cooke, the Chief Financial Officer of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America, The General Convention of the Episcopal Church, and The Executive Council. The Episcopal Church is comprised of 117 autonomous dioceses, 98 of which are domestic and 19 foreign. Each Episcopal Congregation is in canonical union with a specific diocese. The church's governing body is the General Convention which convenes every three years to determine the course of ongoing mission operations. These operations are carried out primarily by The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the U.S.A., Inc., (hereafter called 'The Society'.) The Society's Board of Directors is the Executive Council, members of which are elected by the General Convention and the Nine Provinces of the church. It is recognized by the Treasury Department as a 501(c)(3) tax-exempt religious organization.

This statement is prepared for submission to the Committee on Ways and Means in connection with Committee hearings scheduled for July 7, 8, 9, and 15, 1987 regarding the description of possible options to increase revenues (JCS-17-87) prepared for the House Ways and Means Committee by the staffs of Ways and Means in connection with Fiscal Year 1988 Budget Resolution. My comments deal with two of the possible options for increasing tax revenues in connection with the Fiscal Year 1988 Budget Resolution now being considered by the Ways and Means Committee:

(1) An excise tax on net investment income of churches;

(2) Repeal of the exclusion (from an individual's taxable income) of the employers' cost of providing health care coverage to employees.

Both of these revenue options would diminish the ability of our churches to fulfill their mission. To the extent that the mission of a Church can be perceived as divisible, its two major components are:

(1) Worship of God

(2) Service of humanity

The Congress would undoubtedly find it constitutionally impossible to interfere with the former and financially counter-productive to interfere with the latter. The Committee Staff Report clearly and fairly points out that the existing exemption recognizes that:

(a) '...many exempt organizations perform functions that lessen the burdens of government that otherwise would have to be financed out of tax revenues...'

(b) '...promote the general welfare of the public at large...'

(c) '...contribute to the economic well-being of the country through promotion of business and labor.'

(d) 'The imposition of the tax would reduce the funds available to and needed by charities, social welfare organizations, and other exempt organizations in carrying out their nonprofit activities. The tax thus would adversely affect the beneficiaries of these programs, including the poor, the elderly, students, hospital patients, the environment, etc.'

Of overriding importance to the churches with regard to each of these additional tax options is the fact that the resources of the churches would be diverted from its mission. It is of utmost importance that the Committee be informed of the extent to which these negative economic factors in (a) (b) (c) and (d) above have been reflected in the 'Estimated Revenue Effects' appearing in the pertinent sections of the Committee document now under consideration.

The facts are presented below and in Exhibit A, attached.

Section II. F. 2.
Excise Tax on Churches

Before the Committee votes to impose an excise tax on the net investment income of all tax exempt organizations, specifically including churches and church pension plans exempted from ERISA, it should consider these two facts:

(1) Many taxable organizations are not now paying income taxes on all of their net investment income. Please see Exhibit A for examples.

(2) Most tax-exempt organizations make no profits and therefore would pay no tax on their investment income even if they were subject to income taxes. On the other hand, the excise tax option under consideration would tax a church or other tax-exempt organization but would not tax a taxable business organization with identical investment income under identical circumstances, i.e. no net profit for the year.

Section II D. 5. a. (1)
Income Tax on Employee Benefits

This option would limit the excludability from an employee's taxable income of the cost of employer provided health care coverages. Unless amended to incorporate a 'church plan' exemption similar to that provided for church benefit plan by ERISA, this would have a chilling effect on existing and future health care programs. For example, The Church Pension Fund, the pension fund of The Protestant Episcopal Church in the United States of America has developed a new plan to protect retired clergy and their spouses against catastrophic health care costs which are not covered by medicare or other government programs. They have announced to the Church that the protection will be implemented on January 1, 1988. The Dioceses and the parishes will soon be preparing their 1988 budgets anticipating that the new coverages will be in place by that date. Now, if enacted, the new tax burden that option would place on the clergy will make it necessary for churches to reevaluate and possibly revise the extent of health coverage.

Respectfully submitted,

Ellen F. Cooke

Ellen F. Cooke
Treasurer

EFC:hmf

EXHIBIT A

Examples of Taxable Organizations Not required to Pay Taxes on Net Investment Income

- Regulated investment companies pay no income tax if they distribute all investment income to their shareholders.
- Corporations pay taxes on only 15% of investment income derived from dividends they receive from holdings of preferred stock.
- Corporations pay no income tax (hence no tax on investment income) for years in which they have no net income.
- Banks, insurance companies and other financial institutions pay no income tax on substantial amounts of investment income derived from investments in muncipal bonds.
- Depreciation, depletion, and other permissible tax accounting techniques enable businesses in many industries to eliminate or continually defer taxable income to future years, frequently offsetting investment income which otherwise would be part of the corporations' net taxable income.

EASTERN ILLINOIS UNIVERSITY
CHARLESTON, ILLINOIS 61920

Office of the Dean
College of Fine Arts
(217) 581-2917

July 22, 1987

The Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

I am writing to express strong opposition to some of the tax-raising options being considered by the Committee on Ways and Means.

My concerns are both for institutions in the arts and in higher education. It is apparent that this nation is just beginning to realize that federal and state support of cultural activities is essential, not only to enhance the quality of life for the citizens, but to attract a fair share of the international tourism dollars to this country. Public higher education institutions such as this University rely heavily on earnings from foundations for improving the quality of the educational program as well as for scholarships which make it possible for gifted and talented students to attend the universities.

The three options being considered by the Ways and Means Committee that I find objectionable are: the application of a 5% excise tax on the net investment income of all tax-exempt organizations; the lowering, for individuals in the 28% tax bracket, of the rate for itemized items to the 15% rate; and the imposition of a new floor equal to 10% of an individual's adjusted gross income in excess of $100,000 under the total amount of the taxpayer's itemized deductions.

The suggestion that a 5% excise tax be imposed on the net investment income, including endowment, pension, and investment monies, of all tax-exempt organizations is particularly objectionable. This represents an unprecedented reversal of the long-standing federal policy, incorporated into the tax code by the revenue act of 1913, of exempting from taxation any income of a "corporation, organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual." Our greatgrandfathers in the federal legislature at that time recognized that certain activities are beneficial to both the individual and to the public good of our citizens. Further, to tax endowments would be counter to policies being advanced by the National Endowment for the Arts, which, through its challenge grant program, encourages the development of endowments as a means of developing long-term stability. Endowments are a way of providing financial security for arts organizations, as well as for institutions of higher education.

The combination of the three proposals listed above would act as disincentives for individual taxpayers to make the contributions that are so vital to our nation's non-profit public service sector. Combined with the provisions in the Tax Reform Act of 1986, they would further undermine the ability of non-profit institutions to continue to provide quality services to the public.

I hope we can count on your support in eliminating these proposals, namely the 5% excise tax on foundations and the disincentives for charitable giving, from the list of revenue-enhancing proposals that the Ways and Means Committee approves.

Sincerely,

Vaughn Jaenike

Vaughn Jaenike
Dean

Similar letters from the Eastern Illinois University were received from the following:

Joseph Martin, Assistant Chair, Department of Music
Michael Watts, Director, Tarble Arts Center

Ecumenical Ministries of Oregon

0245 SW Bancroft Street, Suite B, Portland, Oregon 97201, (503) 221-1054

Board of Directors
President
Bishop Calvin McConnell

Immediate Past President
Letty Owings

President-Elect
The Rev. F. Wayne Bryant

Treasurer
G. Burke Mims

Secretary
The Rev. Joyce Mason Funk

The Rev. David Anderson
The Rev. John Anderson
Nobuko Azumano
The Rev. Norman Bengel
William Boland
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Robert Castagna
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Verne Duncan
The Rev. George Gray
The Rev. Bertram Griffin
Maxine Hays
Blanche M. Hodge
Galven Irby
Jean Jackson
The Rev. John Jackson
The Rev. Raymond Kearns
The Rev. Rustin Kimsey
The Rev. Tom Kinzie
The Rt. Rev. Robert Ladehoff
The Most Rev. William Levada
Mike Lindberg
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Reymundo Marin
Ann McGranahan
The Rev. Phillip Nelson
Freddye Petett
Ramona Rank
The Rev. Mark Reid
Clayton Rice
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The Rev. Gene Ross
The Rev. Donald Sevetson
The Rev. Sallie Shippen
The Rev. Gary Simpson
The Rev. Richard Sirianni
The Rev. Murray J. Smith
Kay Somers
The Rev. Elias Stephanopoulos
Donald J. Sterling
The Rev. James Stuart
The Rev. Paul Swanson
Michael Trinneer
Jean Vercouteren

Executive Director
The Rev. Rodney I. Page

July 24, 1987

The Honorable Daniel Rostenkowski
U. S. Representative
Chairman, House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski,

Ecumenical Ministries of Oregon supported the Tax Reform Act of 1986. We did so because we believed our loss of charitable giving would be balanced by what we perceived as increased benefits for the working poor and the low-income retired. Our member denominations recognized there would be a significant loss of revenue, but they were willing to accept their share of the burden. Perhaps we were naive, but we acted in good faith that the tax law changes involving charitable giving were a one-time concession, not the break in the dike.

It is with some dismay that we read of the proposed methods for increasing revenues to meet the Gramm-Rudman-Hollings targets. The voluntary, not for profit sector appears to be a prime target of the June 25, 1987 Joint Committee on Taxation Staff Options Paper. These proposals come at the same time federal, state and local support for social services is being curtailed. We find unacceptable the proposed 50% reduction in charitable deduction for itemizers, the net effect of deducting at the 15% rate, and the 5% excise tax on net investment income of exempt organizations including foundations.

We acknowledge your past support of our role in support services and ask that you continue to safeguard our capacity to serve.

Sincerely,

Ellen Lowe

Ellen C. Lowe
Associate Director
Legislative and Governmental Affairs

ECL:tec

Member Demoninations
American Baptist Church • American Lutheran Church • Antiochian Orthodox Church • Christian Church (Disciples of Christ) • Christian Methodist Episcopa
Church of the Brethren • Episcopal Church • Greek Orthodox Church • Lutheran Church in America • Orthodox Church in America • Presbyterian Church
Reorganized Church of Jesus Christ, Latter Day Saints • Roman Catholic Archdiocese of Portland • Society of Friends (Quakers) • United Church of Christ • United

Family Mental Health Center
1905 Stadium Blvd., Jefferson City, Missouri 65101
314 634 3000

Affiliate:
Osage Counseling Center
Kuster Bldg
Linn, MO 65051
(314) 897 3168

Affiliate:
Miller County Area
Counseling Center
Eldon, MO 65026
Hwy 52
(314) 392 4881

July 21, 1987

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means
1102 Longworth House Building
Washington, D.C. 20515

Dear Representative Rostenkowski:

I am writing on behalf of the Board of Directors of Family Mental Health Center, a not-for-profit community mental health center in Jefferson City.

We are very opposed to some tax change options under consideration by the House Ways and Means Committee. Specifically, we are opposed to the 50% reduction on charitable deductions for itemizers and the 5% excise tax on net investment income of nonprofit, exempt organizations.

Under the concept of Federalism, initiated by President Reagan's administration, the concept was to reduce Federal taxes and tax support for not-for-profit programs and for the burden of cost to be transferred to the volunteer systems, including local United Way Agencies, etc.

This process has obviously occurred, as evidenced by the loss of Federal Support to local human service organizations. The burden of cost has shifted to both the State and local levels.

With the new tax laws last year, some incentives for local giving to not-for-profit programs was reduced when the charitable deduction for non-itemizers was eliminated. Now, there is legislation being considered to reduce the tax incentives for those who itemize their taxes, plus a 5% excise tax on net investment income of nonprofits.

It seems to us that the Federal government may be placing many not-for-profit human service programs in jeopardy. These local public service programs help to improve the quality of life for citizens from all walks of life, when they are in need. We think it is important that we do not lose the very important services of the not-for-profit organizations in our community.

We urge that the Committee oppose legislation that may jeopardize not-for-profit programs.

Sincerely,

Robert C. Whittet

Robert C. Whittet, ACSW
Executive Director

Foster Parents Plan.
Help so complete, it touches a child for life.

July 31, 1987

The Honorable Daniel Rostenkowski
House Ways and Means Committee
1102 Rayburn House Office Building
Room 2111
Washington, DC 20515

Dear Congressman Rostenkowski:

Foster Parents Plan Inc. is an international charity registered with the Internal Revenue Service as a 501-C-3 organization. We would like to go on record as opposing several of the options prepared for the Joint Committee on Taxation and of the Ways and Means Committee. Specifically, we are opposed to suggestions that the charitable deduction for itemizers be cut by up to 50% and the option that a 5% excise tax be imposed on the net investment income of all tax exempt organizations. The negative impact of those two proposals and several others which effect charitable giving would be between 8 and 9 billion dollars annually. We are well aware that these are at present only options which you are considering but believe that we should register our opposition at an early date. These options would negatively effect our organization as well as our 75,000 supporters throughout the United States.

Thank you in advance for any consideration that you could give to this matter.

Sincerely,

Fred K. Kirschstein

Fred Kirschstein
Director of Program Development

cc: Kenneth Phillips

155 Plan Way, Warwick, RI 02886 **1-800-556-7918 toll free** In Rhode Island 738-5600

Gannett Foundation

Eugene C. Dorsey
President

July 16, 1987

The Honorable Daniel Rostenkowski
Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Rostenkowski:

I am the president and chief executive officer of a major grantmaking foundation and chairman of INDEPENDENT SECTOR's national campaign to substantially increase giving and volunteering in this country over the next five years.

I was frankly appalled to learn of some of the provisions of a staff document recently prepared for the Joint Committee on Taxation entitled "Descriptions of Possible Options to Increase Revenues." What I find to be particularly disturbing are the proposals to raise revenue from exempt organizations, specifically those recommending charitable deductions for itemizers be cut by up to 50 percent and the levying of a 5 percent excise tax on the net investment income of all tax-exempt organizations, including foundations.

If these and other proposals were to become law, the loss to charities (and the needy they serve) is estimated by Professor Lawrence Lindsey of Harvard to be between $8 billion and $9 billion. The majority of this loss would be caused by a provision allowing charitable deductions for itemizers at the 15-percent rate instead of higher tax rates, and from a 5-percent excise tax on the net investment income of all tax-exempt organizations, including foundations. Professor Lindsey predicts the first provision would result in a $6.7-billion reduction in charitable giving; the second would require exempt organizations to pay an estimated $1 billion in excise taxes.

Presently, public charities are generally not subject to any income tax on their investment income and private foundations pay a 2 percent (often reduced to a 1 percent) excise tax on their net investment income. The excise tax on foundations was implemented to cover the government's cost of monitoring their activities. Revenues raised from it have exceeded the Internal Revenue Service's cost of administering the combined exempt organizations and employee program plans. This excise tax was never intended as a revenue source and should not be so viewed now.

In the case of the Gannett Foundation, we will pay $340,000 in 1987 for the current 2-percent excise tax. Increasing this excise tax by another three percentage points would further reduce our grantmaking capacity by $510,000.

Lincoln Tower
Rochester, New York 14604
716 262·3315

From the very beginning of tax reform, we were told it was necessary we all equally share the burdens inherent in this process, the balancing of the federal budget and subsequent deficit-reduction plans. There is no question in my mind that exempt organizations have shouldered more than their fair share. In the last six years, nonprofit organizations have faced three major crises:

1. Reductions in federal spending, particularly for human services, resulted in tremendously increased caseloads and expectations for voluntary organizations.
2. At the same time that the government was transferring greater responsibilities for services to the nonprofit sector, it also reduced dramatically its financial support for these services.
3. The Tax Reform Act of 1986 made raising contributed funds more difficult. The combination of reduced rates, the elimination of the charitable deduction for non-itemizers and the inclusion of gifts of appreciated property in the definition of income for the alternate minimum tax will reduce annual giving by approximately $11 billion or 15 percent.

Enough is enough. I urge you and your colleagues on the House Ways and Means Committee to reject this substantial deviation from the long-established practice of recognizing the tax exemption of charitable organizations as the mainstay of our pluralistic society.

Thank you.

Sincerely,

Gene Dorsey

Eugene C. Dorsey

The General Council of
The ASSEMBLIES of GOD
1445 BOONVILLE AVENUE SPRINGFIELD, MISSOURI 65802 TELEPHONE (417) 862-2781

DIVISION OF HOME MISSIONS

ROBERT W. PIRTLE, National Director
JAMES S. KESSLER, Secretary
Intercultural Ministries Department

August 27, 1987

Daniel Rostenkowski, Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Sir:

I raise my voice in opposition to the following proposals included in the Staff Option Paper being considered by the House Ways and Means Committee:

1. A 50 percent reduction in charitable deductions for itemizers.
2. A 5 percent excise tax on nonprofit organizations.
3. Other provisions that would diminish tax incentives for charitable deductions.

Please do not consider any change which would further reduce our capacity to respond to public and human services.

Sincerely yours,

James S. Kessler

James S. Kessler
National Secretary
Intercultural Ministries Department

JSK/dt

ce
OFFICE OF CATHOLIC EDUCATION
Archdiocese of Indianapolis

August 18, 1987

Mr. Daniel Rostenkowski
Chairman - Chicago
House Ways and Means Committee
1102 Longworth House Office
Washington, DC 20515

Dear Mr. Rostenkowski:

It was with great concern tht I read about the proposed cut in allowable tax deductions on gifts to charitable organizations coupled with the proposed excise tax on exempt organizations. I strongly feel that this combination of legislative actions will serve only to reduce the number of services being offered to date by non-profit organizations. It would reduce the income on which we rely so heavily to accomplish our work and severely hamper our efforts to procure the gifts and donations on which we depend.

If, indeed, we are to continue to be responsible for provision of services that you have shifted to us, then it is also your responsibility to allow us the means to carry them out. I urge you to consider the long-term effects of this legislation and to act in good conscience to prevent its becoming a reality.

Sincerely,

Sr. Lawrence Ann

Sister Lawrence Ann Liston
Board of Directors
Gibault School for Boys

LAL/dl

1400 N. MERIDIAN ST. • P.O. BOX 1410 • INDIANAPOLIS, IN 46206 • (317) 236-1430 • 1-800-382-9836

COMMITTED TO WISDOM AND VIRTUE
Guilford
College
1837-1987

August 27, 1987

Chairman Daniel Rostenkowski
House of Representatives
Ways and Means Committee
1102 Longworth House Office Building
Washington, D. C. 20515-6348

Dear Chairman Rostenkowski:

I am writing to object to the proposed 5 percent excise tax on the net investment income of tax-exempt organizations and other proposals in the Joint Committee document that already have severe consequences for fund-raising in higher education.

This year Guilford College is celebrating the 150th anniversary of its founding. Through these 150 years the College has managed to keep its doors open to students who desire a quality education. For example, Guilford was the only college in the South to remain open during the Civil War. Through wise fiscal management, Guilford College has operated for more than 50 years within a balanced budget in spite of the fact that our endowment is small relative to colleges of comparable size and quality.

Moreover, we have been able to reduce the proportion of educational costs borne by many needy families over recent years because the value of our investment income has grown. By holding tuition costs down, we honor our institutional commitment to offer quality education to all qualified applicants -- not just those students whose families can afford the full cost of a college education.

We object to the proposal for three reasons:

(1) The proposal is ill-conceived and is counter to the public interest. It breaks with a long-established government tradition of not taxing the endowments of colleges and universities. Congress has recognized wisely that education is in the public interest. A fiscal policy that does not tax endowment income of colleges and universities seems to support that priceless public interest.

(2) The proposed legislation is excessively burdensome on financially smaller institutions such as Guilford College. We use part of our endowment to offset operating costs. In essence, we

Guilford College 5800 West Friendly Avenue Greensboro, North Carolina 27410 Telephone 919 292-5511

would be paying taxes on money used for operating expenses. As we understand the impact of the bill, were it to be passed, we would be compelled to pay the tax regardless of the use of the money. Typically, the impact of the legislation would excessively hurt small private institutions such as Guilford College, and would not add substantially to the income of the goverment.

(3) The elimination of some itemized deductions for higher-income taxpayers is likely to have severe consequences for fund-raising in higher education. This proposal comes on the heels of the 1986 tax reform, the impact of which has not yet been felt by the charitable community. We do not know the extent of the effect of this expected diminished financial support while we are now being asked to consider another "reform" that will excessively jeopardize the educational undertaking of small private institutions.

I object strongly to the proposed legislation that would affect the mission and vision of Guilford College, and kindly request that the House Ways and Means Committee consider alternative ways to raise funds.

Sincerely,

William R. Rogers
President

Hawaii
Planned Parenthood®

August 3, 1987

Chairman Daniel Rostenkowski
U.S. House Ways and Means Committee
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Chairman Rostenkowski and Members of the Committee:

It has come to my attention that the Joint Committee on Taxation is circulating a staff document recommending that (1) charitable deductions for itemizers be cut by up to 50 percent, and (2) a 5 percent excise tax be imposed on the net investment income of all tax-exempt organizations.

As Executive Director of a nonprofit organization that works very hard to provide the best services possible on a very lean budget, I am frankly appalled at this proposal. Health service organizations, public and private, have done far more than their fair share to shoulder the burden of federal budget cuts.

I sincerely hope that you and the members of the House Ways and Means Committee will agree that this recommendation is unfair and poor fiscal policy and further hurts those who rely on our services the most -- low income women and their families. Please put a stop to this.

Sincerely,

Cheryl Vasconcellos

Cheryl Vasconcellos
Executive Director

CV/ahe
#799

1164 Bishop Street, Suite 1220 Honolulu, HI 96813 808/521-6991

OAHU CLINIC
1164 Bishop Street
Suite 1220
Honolulu, HI 96813
537-5557

MAUI CLINIC
[illegible] Street
#N-17
Kahului, Maui 96732
871-8641

KAUAI CLINIC
4268 K Rice Street
Lihue, Kauai 96766
245-5678

KONA CLINIC
Hualalai Medical Center
75-184 Hualalai Road
Suite 201
Kailua-Kona, HI 96740
329-1617

A UNITED WAY AGENCY

HEAR CENTER
301 East Del Mar Boulevard, Pasadena, Calif. 91101 (213) 681-4641 • (818) 796-2016
... preparing the deaf child for education and integration with the normally hearing.

August 13, 1987

HOUSE WAYS AND MEANS COMMITTEE
1102 Longworth House Office Building
Washington, DC 20515

Gentlemen:

The HEAR Center, a nonprofit organization established in 1954 to serve the needs of the hearing and speech impaired, is vigorously opposed to any tax revisions which would further erode or limit tax incentives for charitable contributions by itemizers. We are also alarmed that a 5% excise tax would be imposed on nonprofit organizations.

The Tax Reform Act of 1986 has already made raising contributions more difficult due to the elimination of the charitable deductions for nonitemizers and the inclusion of gifts of appreciated property as an alternative minimum tax item. It is outrageous that the Joint Committee on Taxation now recommends changes that would have an even more negative impact on services provided by nonprofit organizations. Specifically, we are alarmed that 1) charitable deductions for itemizers would be cut by up to 50%; 2) that there would be an imposition of a floor under aggregate itemized deductions (including charitable deductions) for higher income taxpayers: 3) a reduction in indivi-ual and corporate tax preferences; 4) a proposed increase in the alternative minimum tax from the present rate; and 5) a 5% excise tax on net investment income would be imposed on tax exempt organizations.

We strongly urge you and members of the House Ways and Means Committee to oppose any changes that would diminish or eliminate potential contributions to nonprofit organizations and take away our tax exempt status.

Sincerely,

Josephine Wilson

Josephine F. Wilson
Executive Director

FOUNDERS Mr. and Mrs. Glen Bullinger and Ciwa Griffiths, Ed.D.

Ciwa Griffiths, Ed.D. .... ADMINISTRATIVE CONSULTANT
Josephine F. Wilson .... EXECUTIVE DIRECTOR
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July 28, 1987

The Honorable Daniel Rostenkowski
Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Rostenkowski:

As executive director of America's major voluntary organization committed to fighting blindness overseas, I must object most strenuously to the tax law options recently proposed by your committee, which would burden charitable organizations with a 5 percent excise tax while simultaneously slashing the tax deduction for charitable contributions.

Private voluntary agencies still reeling from the effects of Reagan-era funding cuts must not be made subject to this added double handicap. The prospect of a tax on non-profit organizations is especially distressing, as this puts us on a dangerous downward slope toward loss of tax-exempt status. At a time when private donors must take up the slack for cuts in domestic social programs and overseas humanitarian aid, the "voluntarism" that the President espouses is being attacked on all sides by hostile legislation. Surely the nation's deficit can be ameliorated without eroding the American tradition of humanitarianism at home and abroad.

I urge your help in defeating these drastic measures.

Sincerely yours,

John M. Palmer
Executive Director

JMP/pja

CLAUDE A. HICKS
President

CARLO GOTT
Vice President for Campus Life

HENDRICK HOME
for
CHILDREN
founded 1939

BOB ALLISON
Vice President for Family Services

RON KEENER
Vice President for Community Relations

July 29, 1987

Congressman Daniel Rostenkowski
House Ways and Means Committee
1102 Longworth House Office Building
Room 2111 RHOB
Washington, D. C. 20515

Dear Congressman Rostenkowski,

I am very concerned by the recommendation of the joint committee on taxation that a fifty percent reduction in charitable deductions for itemizers be included in the tax planning. Also, that a five percent excise tax on non-profit organizations become part of the taxation structure. This is very unusual to do this to the private sector. If the 5% tax is added, Hendrick Home would be paying 7% tax on income. We are classified as a private foundation. We currently pay 2% tax on all income. On income of $1,800,000.00 at 7%, we would be paying taxes of $126,000.00. Please reconsider.

I don't believe you have any idea of the tremendous amount of tax dollars private child care has saved this country. It is estimated and it is a conservative estimate, that this will cost the private charitable organizations between eight and nine billion dollars annually if this tax were enacted. If this should happen, the money is going to have to come from somewhere or services will be cut, educational institutions will be hurt and more federal dollars will be required . This does not make any sense at all. Why not continue to give tax exemptions to the charitable organizations in order that they can continue to do the good job which they have been doing for all these years. Please do not take any more income from the charitable organizations in this country.

Sincerely,

Claude Hicks
President, C.E.O.

CH:hf

cc's: Ian Morrison - Madge Watson

2758 Jeanette Street. P.O. Box 5195. Abilene, Texas 79608-5195. Phone (915) 692-0112

HENRY L. MILLER AND SON, INCORPORATED
APPAREL DIVISION: P.O. Box 65, Port Carbon, PA 17965 • (717) 622-6181
SALES OFFICE: 913 Route 23 S. Pompton Plains, NJ 07444 • (201) 831-0333

August 6, 1987

Chairman
House Ways and Means Committee
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Sir:

Enough is enough. A combination of budget and options on voluntary organizations is not equitable. Charitable reductions for the use of balancing the budget, taking the incentive away from the private sector to support charities, is irresponsible.

The opposite should be done in reviewing the inefficiencies of the many programs going forward in Congress today. A good example is the ridiculous waste of money, $10 Million plus, on the Contra hearings when the Contras have only received $3 Million. Let's start to utilize our taxes more wisely rather than cutting deductions in areas that are directly supported by private enterprise.

Sincerely,

HENRY L. MILLER & SON, INC.

John L. Miller, Jr.
President

JLM:jmr

HOSPICE of ABILENE

August 4, 1987

Dear Congressman:

It is my understanding that you are reviewing information on a new reduction in charitable deductions for itemizers.

Our program serves terminally ill cancer patients. Our support enables families to care for loved ones at home during their final days. Hospice care is both compassionate and cost effective.

We receive no government funding. We are totally a private sector response to community need.

I urge you to consider the effects of any actions which would further diminish charitable giving. The services of many private sector programs and the quality of life of many people would be dramatically reduced.

Thank you for your attention to this important matter.

Sincerely,

Sandi Saringer

Sandi Saringer, S.W.
Executive Director

SS/mv

P.O. Box 1922 Abilene, Texas 79604 915-677-8516

Hubbard Street Dance Co

Hubbard Street Dance Company
218 South Wabash Avenue
Chicago, Illinois 60604
312-663-0853

Lou Conte
Artistic Director
Gail Kalver
General Manager

August 10, 1987

Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, DC 20515

Dear Representative Rostenkowski,

I am writing on behalf of the Hubbard Street Dance Company, member of Chicago dance community and Chicago Dance Coalition Dance/USA, National Corporate Fund for Dance, to present our strong oppostion to the proposed tax-raising options currently being considered by the House Ways and Means Committee.

In recent years, the arts community has taken serious cuts in public funding. Efforts to replace those needed monies from the private sector would be seriously hampered by legislation restricting incentives for giving. It is not the individuals in the 28% tax bracket who are penalized by the disincentives to charitable giving, but all of us who rely on these contributions to keep our organizations alive.

We oppose the following suggested tax options that could seriously hamper our growth:

Lowering the deductibility of itemized deductions by nearly 50%, from 28% to 15% for taxpayers in the 28% rate bracket.

Imposition of a new floor equal to 10% of an individual's adjusted gross income in excess of $50,000 ($100,000 for a married couple) under the total amount of a taxpayer's allowed itemized deductions.

We also are opposed to the application of a 5% excise tax on the net investment income of all tax-exempt organizations.

We hope we can count on your support to eliminate these proposals from the list of revenue enhancing proposals that the Ways and Means Committee is considering.

Sincerely,

Gail Kalver

Gail Kalver
General Manager

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Hubbard Street Dance Company
is a not-for-profit organization

STATEMENT OF
THE INTERNATIONAL COUNCIL OF SHOPPING CENTERS

ON THE
DESCRIPTION OF POSSIBLE OPTIONS
TO INCREASE REVENUES

PREPARED FOR THE
COMMITTEE ON WAYS AND MEANS

INTRODUCTION

My name is Edward J. Sack. I am the General Counsel for the International Council of Shopping Centers (ICSC).

ICSC is the trade association for the shopping center industry, with over 21,000 members. Membership includes developers, owners, retailers, lenders and all others having a professional interest in the shopping center industry. ICSC members represent most of the 28,500 shopping centers in the United States. In 1986 these centers generated $20.3 billion in sales tax revenues and employed 6.9 million people.

ICSC's principal function is to educate persons to develop, manage, and operate shopping centers. To carry out this mission, ICSC conducts over 60 educational meetings a year on a variety of topics and of varying size. This includes two major conventions each year. ICSC publishes a monthly news magazine, Shopping Centers Today (with advertising subject to unrelated business income tax), a quarterly newsletter on shopping center law, and other books and pamphlets. ICSC conducts legislative activities on behalf of its members with the federal government and all 50 states. It also conducts an annual public service campaign; this year it was "Kids Say KNOW to Drugs."

Proposal

The proposal would impose an excise tax of 5% on the net investment income of all tax-exempt organizations, including ICSC as a §501(c)(6) trade organization. Net investment income is the sum of gross investment income (including interest and dividends) plus net capital gain, less the expenses of earning such income.

Another proposal would also treat investment income and other income not related to the trade association's exempt function as subject to the unrelated business income tax (UBIT). UBIT would not, however, apply to dues, fees, charges and other amounts received from members in connection with the association's exempt function.

ICSC Position

ICSC opposes either the imposition of a 5% excise tax on net investment income or subjecting investment income and certain other income of trade associations to UBIT.

Trade associations such as ICSC have been granted tax-exempt status under §501(c)(6) of the Code. To secure tax-exempt status, trade associations must demonstrate that they seek to improve a particular line of business and do not perform services for individual persons. The purpose of ICSC is to promote the common interests of its members, *i.e.*, shopping center and retail development and operation. ICSC represents shopping center developers and owners as well as retail companies whose stores are operated in shopping centers; a membership that represents a broad cross-section of our nation's economy.

Trade associations promote particular lines of business. Promotional activities enhance the economic health of member industries which in turn contribute to the overall economic well-being of the country. In ICSC's case, the association has played a key role in promoting and facilitating the development of shopping centers over the last 30 years. This has transformed the retail business of the country, producing vast economic benefits to retailers, construction companies and many suppliers to these industries. The ripple effect in the economy goes well beyond these industries.

The ability of large and small business to interact freely and to draw from the same pool of information increases business competition. Since anyone wanting to learn how to develop or manage a shopping center can attend ICSC meetings on these topics, new entrants to the business have easy access to important information, assuring competition in this field.

Trade associations would be forced to diminish their activities in the event of the imposition of tax. This diminution in services could result in decreased economic performance on the part of members. In addition, large businesses could afford to procure the information and services previously provided by the trade association. As a result, small businesses would be at a competitive disadvantage.

The government also benefits from ICSC's existence as the responsibility for disseminating legislative and administrative information to shopping centers is assumed by ICSC. For instance, recent changes in the tax laws that affected shopping centers have been explained to ICSC members as well as new environmental regulations. Notification and explanation of laws and regulations permits shopping centers to comply with new rules without substantial government enforcement efforts. ICSC also educates government as to the role and operation of shopping centers so that governmental actions are the product of an informed deliberative process.

The unique functions carried out by ICSC and other trade organizations are beneficial to the public and government as well as to members. Taxing trade associations will cause such organizations to cut back on services, and the initial reductions will probably be made in areas that benefit the public and government.

J. R. SHORT MILLING COMPANY

233 SOUTH WACKER DRIVE · SEARS TOWER · CHICAGO, ILLINOIS 60606 · 312-876-7070

July 13, 1987

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means Committee
U.S. House of Representatives
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

It has come to my attention that there are some weird ideas in Washington about raising more money by raising taxes. One of these that horrifies me is the excess tax on net investment income of exempt organizations. The rules look ridiculously complicated and unnecessary. It will be the end of giving for endowment.

The other proposals like limitation on tax liability for top bracket individuals, reduction in the value of individual and corporate tax preferences, and creating a floor equal to 10% of a taxpayer's adjusted gross income in excess of $100,000 would all certainly destroy forever the system we have of contributions for worthwhile, charitable, and educational purposes.

It would certainly destroy our great museums which are also educational institutions.

Sincerely yours,

J. R. SHORT MILLING COMPANY

Jeffrey R. Short, Jr.
President

JRSJR:kmb

Mrs. Paul Kaye
5 GRANDVIEW TERRACE • HADDAM, CONNECTICUT 06438

July 24, 1987

The Honorable Dan Rostenkowski
Chairman, Ways & Meahs Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rostenkowski:

We are shocked to learn that the Ways and Means Committee is seriously considering augmenting Federal income by looking to the non-profit organizations as a source of new tax options. If enacted into law this measure would clearly diminish the services that cultural organizations provide the American people.

I trust you will use your presence on the Ways & Means Committee as an influence to prevent the imposition of the proposed burden on individual gifts by private donors.

Sincerely yours,
Paul & Libby Kaye

Paul & Libby Kaye

3511 Kirby Drive,
Greensboro, N. C. 27403,
August 3, 1987

House Ways & Means Committee,
Subcommittee on Revenue Measures,
1102 Longworth House Office Building,
Washington, D. C. 20515

Members:

By exempting the thousands of colleges, universities, religious institutions, and charitable organizations from income taxes on the items they sell for profits, it throws the burden on the average income personnel thereby cutting down and penalizing the economy through less purchasing power.

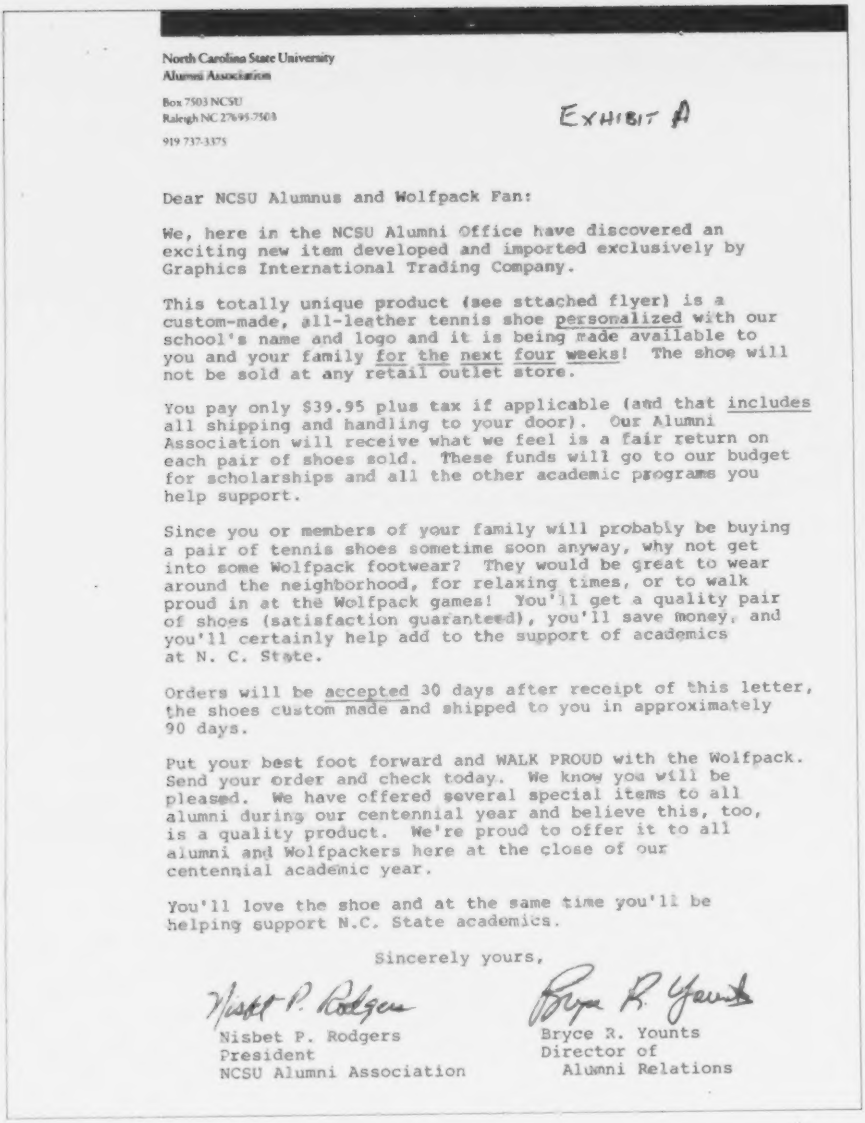
Note exhibits A through D enclosed concerning sales which should be made by private businesses; and think of the income taxes that could be derived.

Another income not taxed is that of photographs made and sold on the campuses of all schools and universities and Churches. Their take is approximately 50% of the total sales which is not taxed. This also involves interstate commerce in all cases. It would take efforts from the FBI to give you a true picture of transactions. Also involved is the (secret) payment for signing of the contracts.

Please note also the enclosed which states the tremendous grants given to one little foreign state amounting to $59 BILLION (not million) just for six months of the year - not even repayable. This would go a long way towards the national debt, if in fact there is a national debt.

Sincerely,

Dale Kearns



North Carolina State University
Alumni Association

Box 7503 NCSU
Raleigh NC 27695-7503

919 737-3375

EXHIBIT A

Dear NCSU Alumnus and Wolfpack Fan:

We, here in the NCSU Alumni Office have discovered an exciting new item developed and imported exclusively by Graphics International Trading Company.

This totally unique product (see sttached flyer) is a custom-made, all-leather tennis shoe personalized with our school's name and logo and it is being made available to you and your family for the next four weeks! The shoe will not be sold at any retail outlet store.

You pay only $39.95 plus tax if applicable (and that includes all shipping and handling to your door). Our Alumni Association will receive what we feel is a fair return on each pair of shoes sold. These funds will go to our budget for scholarships and all the other academic programs you help support.

Since you or members of your family will probably be buying a pair of tennis shoes sometime soon anyway, why not get into some Wolfpack footwear? They would be great to wear around the neighborhood, for relaxing times, or to walk proud in at the Wolfpack games! You'll get a quality pair of shoes (satisfaction guaranteed), you'll save money, and you'll certainly help add to the support of academics at N. C. State.

Orders will be accepted 30 days after receipt of this letter, the shoes custom made and shipped to you in approximately 90 days.

Put your best foot forward and WALK PROUD with the Wolfpack. Send your order and check today. We know you will be pleased. We have offered several special items to all alumni during our centennial year and believe this, too, is a quality product. We're proud to offer it to all alumni and Wolfpackers here at the close of our centennial academic year.

You'll love the shoe and at the same time you'll be helping support N.C. State academics.

Sincerely yours,

Nisbet P. Rodgers
Nisbet P. Rodgers
President
NCSU Alumni Association

Bryce R. Younts
Bryce R. Younts
Director of
Alumni Relations

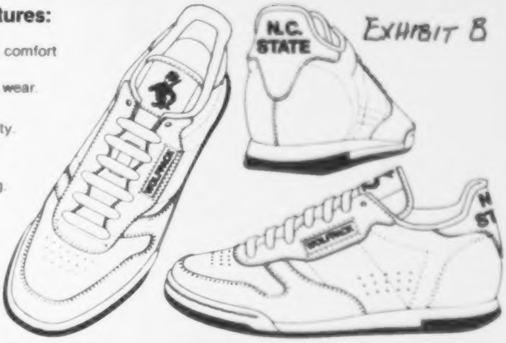
EXHIBIT B

Walk Proud with NCSU

The highest quality all leather tennis shoe available. . .customized with the Wolfpack's colors and computer-embroidered color logos.

Plus these other outstanding features:

- 100% super soft garment leather for excellent comfort and styling.
- Durable rubber outsole for strength and long wear.
- Shockproof with soft mid-sole and wedge.
- Doubled alliance stitching for greater durability.
- Tongue is Polypack with terry cloth lining for comfort, good looks and strength.
- Terry cloth collar with urethane foam padding.
- Removable and replaceable Texon insole.
- Heel support for greater strength.



Compare our quality, style and comfort with any name brand tennis shoe.

This shoe will not be available in retail stores.

Boy's Sizes — Men's Sizes

Girl's Sizes — Women's Sizes

For women's size 10½ and larger, order from men's chart size 9 and larger
(Women's sizes are 1½ sizes smaller than mens.)
Example: For women's size 10½, order size 9 as shown on men's chart.

Satisfaction Guaranteed

A $50.00 retail value
YOURS FOR ONLY $39⁹⁵

(Delivered to your address)

PLEASE PRINT OR TYPE

Name ______ FIRST ______ MIDDLE INITIAL ______ LAST

Address ______

City ______ State ______ Zip ______

Phone ______ / ______ AREA CODE

(Do not send cash)

☐ Check enclosed or charge my ☐ Visa ☐ MasterCard

ACCOUNT NUMBER (include all large raised numbers on your credit card)

Credit Card expiration date ______ / ______ MONTH YEAR

Signature ______

Make checks payable to: **NCSU Alumni Association**

Send to: North Carolina State University
Alumni Association, Box 7503 NCSU
Raleigh, NC 27695-7503 (envelope enclosed)

MEN'S		WOMEN'S		BOY'S		GIRL'S		AMOUNT
No. of Pairs	Size	No. of Pairs	Size	No. of Pairs	Size	No. of Pairs	Size	($39.95 per pair)

No. of ____ pair(s) ordered x $39.95 = ______

N.C. Residents
Add $2.00 sales tax per pair ______

TOTAL AMOUNT ______

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An order confirmation and scheduled shipping date will be sent to you within 30 days of receipt of your order

EXHIBIT C

32 Greensboro News & Record,
Tuesday, July 14, 1987

UNC board sues T-shirt company

By **MEREDITH BARKLEY**
Staff Writer

A retail T-shirt business in Chapel Hill has been sued by the University of North Carolina Board of Governors for allegedly using the UNC-Chapel Hill name, logos and initials illegally.

The board of governors and UNC-CH are seeking for an injunction against Johnny T-Shirt, barring it from dealing in clothes bearing the university images.

The suit, filed in U.S. Middle District Court Friday, charges the 4-year-old company sews, heat transfers and silk screens the images illegally onto shirts, boxer shorts and other items of clothing at its 128 E. Franklin St. location. In addition to selling to the general public, the suit alleges, the company wholesales its products.

The university claims that Johnny T-Shirt's alleged trademark infringement and other illegal practices have cost it more than $500,000 in lost royalties, lost income and other damages. The suit seeks triple the damages.

The images in question include the letters "UNC," the Tar Heel foot design, the university seal and the words "University of North Carolina." The lawsuit says the university has federally registered trademarks for each.

Only companies granted licenses by UNC-CH are authorized to use the images, the suit says. There are seven such companies in the Triangle area, two of which are in Chapel Hill, an affidavit accompanying the lawsuit says.

The university administers the licensing program through an agent — Collegiate Concepts Inc. — which oversees trademark usage, ensures the quality of goods produced and monitors royalty reporting and payment.

The university expects to receive $150,000 in royalty payments from licensees this year, the affidavit says. Proceeds from the fund go primarily for scholarships.

"It is essential to the success of the program that the policies requiring payment of royalties is strictly enforced," Thomas A. Shetley, director of auxiliary services at UNC-CH, said in an affidavit.

In addition to Johnny T-Shirt, the suit names as defendants the owners, brothers Charles and Michael Helpingstine, and a sister company, JTS Promotions.

Michael Helpingstine said Monday that the company buys most of its university-related items from licensed vendors. The exception, he said, is the occasional use of the UNC initials, to which his company believes the university does not have rights.

"There's the University of North Colorado," he said. "Do they have exclusive rights to the initials? We feel there are some things in the store that aren't licensed and shouldn't be licensed."

He said his company wants to remain on good terms with the university and noted that Johnny T-Shirt provides jobs for up to 40 university students, making it easier for them to pay for their schooling.

"We feel like we're doing a good service to our community," he said.

EXHIBIT D

B2 Greensboro News & Record,
Tuesday, July 28, 1987

NEWS of the REGION

Judge OKs usage of UNC-CH's logos

A federal judge Monday declined to stop a Chapel Hill T-shirt business from using the name, logos and initials of the University of North Carolina at Chapel Hill.

Judge Frank W. Bullock Jr. denied the request for a preliminary injunction sought against Johnny T-Shirt of 128 E. Franklin St. in Chapel Hill. UNC-CH also has filed a lawsuit against the company.

The suit charges that the 4-year-old company illegally puts the images onto shirts, boxer shorts and other items of clothing and sells them to retailers and the general public.

The images in question include the letters "UNC," the Tar Heel foot design, the university seal and the words "University of North Carolina."

The lawsuit says the university has registered trademarks for each and that only companies granted licenses by UNC-CH are authorized to use the images.

In an interview earlier this month, company owner Michael Helpingstine said that the company buys most of its university-related items from licensed vendors.

The exception, he said, is the occasional use of the UNC initials, which his company believes the university cannot control.

Israel

From A1

7-87

he said.

Israeli leaders dislike dependency, too: "Nobody in Israel ever wanted to become dependent on a foreign power," said Amos Rubin, Prime Minister Yitzhak Shamir's economics adviser, during a recent interview here, "and, now that we are, nobody has an acceptable way out."

And while official American aid, $58.8 billion so far in 1987 dollars, dominates the picture, the economic connection between the two countries involves far more than that.

For every $3 Israel receives from the U.S. government, it gets an additional $1 in private American contributions, channeled through such organizations as United Jewish Appeal and Hadassah, as well as through personal purchases of Israel bonds at concessionary interest rates.

This means that every year the United States sends Israel at least $4 billion: $1.8 billion for military spending, $1.2 billion in economic aid and roughly $1 billion from private pockets. That amounts to nearly $1,000 a year for each Israeli, about 20 percent of the country's average per capita income.

Even those numbers understate the picture, for the Israeli and American economies have intertwined on a fundamental level.

With the blessing of the White House and Congress, Israel's defense industry has intermeshed with the U.S. military-industrial complex, serving not only as major customer, supplier and consultant, but also as a weapons systems researcher and developer. Recently, it was declared eligible to bid for classified

KUALOA-HEEIA ECUMENICAL YOUTH PROJECT
KEY
47-200 WAIHEE ROAD, KANEOHE, HAWAII 96744
PHONE: 239-5777

August 14, 1987

Daniel Rostenkowski, Chairman
House Ways and Means Commitee
1102 Longworth House Office Building
Washington, D.C. 20515

RE: Staff options for cutting charitable deductions and 5% excise tax for investment income of tax-exempt organizations.

Dear Mr. Rostenkowski,

We are writing about the above mentioned staff recommendations to the tax laws. We are opposed to the charitable deduction for itemizers being cut by up to the 5% excise tax which would be imposed on the net investment income of all tax-exempt organizations. These options were included in the June 25, 1987 staff document of the Joint Commitee on taxation.

Kualoa-Heeia Ecumenical Youth (KEY) Project is a tax-exempt non profit community service organization which has served its community since 1968. We are a small agency which relies on the generous donations of individuals and we feel the proposed tax law changes will have far reaching negative effects which, at minimum, would cause us to cut services and which could very well mean the closing of our agency.

"Enough is enough". Services of non-profits have taken more than their fare share of the burden of the federal budget cuts and reductions in income from reduced tax incentives to contribute to charity.

Please vote against these and other tax options which would serve to destroy organizations such as ours.

Sincerely,

Charlene Hoe
Executive Director

CH/cp

A United Way Member Agency

LEAGUE OF CHICAGO
THEATRES

July 20, 1987

The Honorable Dan Rostenkowski, Chairman
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

On behalf of the 125 member theatres of the League of Chicago Theatres, I would like to register strong opposition to some of the tax-raising options that you, as a member of the Committee on Ways and Means, are now considering.

While the League is well aware of the need to lower the federal deficit, it is concerned that several of the options, following as they do on the heels of last year's tax reform, would further impair our members' important cultural missions. Our two principal areas of concern are 1) the five percent excise tax on net investment income, and 2) diminished tax incentives for charitable contributions.

The suggestion that a five percent excise tax be imposed on the net investment income, including endowment, pension, and investment monies, of all tax-exempt organizations is particularly troublesome. This represents an unprecedented reversal of the long-standing federal policy, incorporated into the tax code by the Revenue Act of 1913, of exempting from taxation any income of a "corporation, organized and operated exclusively for religious, charitable, scientific or educational pruposes, no part of the net income of which inures to the benefit of any private stockholder of individual." This policy reflects a very early recognition on the part of government that certain activities, carried out for the most part by voluntary associations, are beneficial to both the individual and public good of our citizens.

Further, to tax endowments would be counter to policies being advanced by the National Endowment for the Arts, which, through its challenge grant program, encourages the development of endowments as a means of developing long-term stability.

22 W. Monroe/Suite 801 Chicago, Illinois 60603 312/977-1730
Sharon Phillips, President Diane O. Economos, Executive Director

Alexander L. Leich
1107 Harrelton Court
Evansville, Indiana 47715

July 20, 1987

The Honorable Dan Rostenkowski
Cjairman, Ways and Means Committee
U. S. House of Representatives
Washington, D. C. 20515
W

Dear Chairman Rostenkowski:

The new tax proposals of the Ways and Means Committee affecting charitable and cultural organizations would spell a disaster which could reduce income and contributions from individual donors to a level insufficient to maintain them. I am referring to the proposed application of a 5% tax on net investment income of presently tax-exempt organizations; the lowering for individuals in the 28& tax bracket to a rate of 15% for itemized deductions; and the imposition of a new floor equal to 10% of an individual's adjusted gross income in excess of $100,000 ($50,000 for a single taxpayer) under the total amount of the taxpayer's itemized deductions.

The new tax bill of 1986 has already reduced somewhat the taxpayer's incentive to make contributions and the latest proposals could discourage giving entirely by millions of affected taxpayers. This could terminate the much needed services of many charitable organizations and spell catastrophe for museums, symphony orchestras, theatre and dance groups and colleges and universities. Federal and State government grants are already being sharply reduced and without incentives for individual donors to contribute, the end is in sight for hundreds or thousands of organizations.

If your Committee is looking for reductions in wasteful Governmen spending to reduce the budgetdeficit it should look primarily at our obscene Defense spending. If the Reagon Administration were only sincerely interested in a peaceful accomodation with the Soviet Union, both superpowers could pay attention to the needs and desires of their citizens instead of stockpiling billions of dollars worth of weapons far in excess of real needs. Also, I was shocked to learn that the President is spending $300 million for a new Airforce One airplane to replace the present one which cost only $15 million.

I respectfully ask you to express the above concerns to other members of your Ways and Means Committee.

Sincerely,

Alexander L. Leich

Light Opera Works

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ARTISTIC DIRECTOR

Bridget McDonough
MANAGING DIRECTOR

August 14,1987

Hon. Dan Rostenkowski
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rostenkowski,

The members of the board of directors and the staff of Light Opera Works would like to register strong opposition to some of the tax-raising options that you, as a member of the Committee on Ways and Means, are now considering.

While we recognize the need to lower the federal deficit, we are concerned that several of the options will impair our cultural mission.

Please do not support the five percent excise tax on net investment income or any diminished tax incentives for charitable contributions.

We hope we can count on your support in eliminating these proposals from the list of revenue enhancing proposals that the Ways and Means Committee approves.

Sincerely,

Bridget McDonough
Managing Director

LIGHT OPERA WORKS
Illinois' Only Professional Light Opera Company
A not-for-profit organization

927 Noyes Street • Evanston, Illinois 60201-2799 • (312) 869-6300

MS. BETTY H. LLEWELLYN
3530 GRANADA
DALLAS, TEXAS 75205

August 23, 1987

Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski,

The Museums of the United States of America are in trouble!

Our museums are challenged with providing valuable services to the public while they receive less funding than ever before. To add to this crisis, handicaps are being applied which would discourage traditional avenues of support like charitable contributions.

Please provide tax legislation that will ENCOURAGE private citizens to support museums through charitable contributions.

I understand that the House Ways and Means Committee is currently discussing tax law changes that would remove or lower the deductability of gifts to museums. Please consider this citizen's opinion and opposition to any such legislation. I oppose any excise tax on museum income. I oppose imposition of a floor on any andividual's contribution, when computing the deductible amount resulting from a gift to a museum.

Thank you for considering this citizen's opinion.

Sincerely,
Mrs. Betty H. Llewellyn
Mrs. Betty H. Llewellyn

cc: Larry Goldberg
Warwick Consortium of the Arts & Humanities
3275 Post Road, Warwick, R.I. 02886

the Luke Society, Inc.
Medical and Dental Professionals Dedicated to the field of Missions
P.O. Box 871, Vicksburg, Mississippi 39180 • 601/638-1629 • Cable: LUKSOC

July 28, 1987

The Honorable Daniel Rostenkowski, Chairman
House Ways and Means Committee
Rayburn House Office Building, Room 2111
Washington, D.C. 20515

Dear Sir:

The Luke Society is a nonprofit organization which is committed to assisting the poor through medicine and spiritual assistance. We are concerned that the Ways and Means Committee could be considering limiting the tax deductible percentage for charitible donors, and consider establishing an excise tax on the nonprofit organizations. Either or both will greatly effect the income and therefore serve to curtail the work of the nonprofit organizations.

It is a known fact that nonprofit organizations represent the pulse of the country's generosity. The heart of this country needs the freedom to express itself or it will become repressed and the people will lose heart.

Your position on the Ways and Means Committee is to assure the public of its right to healthy giving and in turn, a healthy democracy. Please consider any further restriction on the tax deductible giving or an excise tax on these organizations as being counterproductive to the welfare of this country.

Sincerely yours,

Peter Boelens

Peter A. Boelens, M.D.
Executive Director

EO:ac
enc.

People Touching People
In Christ's Name

The Luke Society was organized in 1964 by a group of Christian Reformed physicians and dentists for the purpose of keeping Rehoboth Mission Hospital from closing. A new hospital was constructed and an expanded ministry developed to the Gallup, New Mexico, community. Presently, a merger of hospital facilities in the Gallup area is being pursued by both The Luke Society and the Rehoboth Board of Directors.

The
LUKE SOCIETY, INC.

P.O. Box 871
Vicksburg, Mississippi 39180

The Goal Of The Luke Society Is Working At A Community Level With Direct Patient Care, Health Education, Preventive Services And The Gospel Of Jesus.

In 1970 The Luke Society ventured into the area of community health through the initiation of Dr. Peter Boelens. A community medical evangelistic program was developed in the Delta of Mississippi. The purpose of this health program was to impact on a poverty area in a distinctly Christian and wholistic manner. Medical, dental, social, educational and spiritual components of a health care center were implemented. A Christian economic corporation was initiated in order to provide jobs for the unemployed and the necessities of life at a reasonable cost through thrift shops. The ministry has been successful in that the infant mortality rate has been greatly reduced. People have been treated with respect and as a consequence are gaining self respect. Others introduced to Jesus Christ have come into His family. Families headed for disintegration have become integrated. This work is a light for all to see as a body of Christians joined together are providing God's healing to their community.

This model of community health with an interwoven spiritual dynamic is being replicated in other areas of the United States and third world countries. Programs are now underway in the Philippines, India, Ecuador, the Dominican Republic and a new program will be starting in Honduras this fall. The Luke Society's philosophy is to work with national health providers whenever possible. Knowing the language, culture and health care system, they are able to accomplish more with less money.

It has been exciting and encouraging to see how God has directed individuals to The Luke Society whom He has called to this type of ministry. The Luke Society is committed to providing funding, program consultation and maximizing the creative potential of each of these team members for the overall advancement of God's Kingdom in their area.

In order to provide exposure to students, health professionals and non health personnel to missions and the needs of the poor, volunteer service opportunities are provided both in the United States and third world countries.

Each year the help of health professionals, students and general workers is enlisted to work in the two week medical project in Honduras.

DOMINICAN REPUBLIC

Twenty-two Christian community health promoters have graduated from a training program conducted by Dr. Socrates Perez. Dawn Meyers, to the right of Dr. Perez, a one year Christian Reformed World Mission volunteer, assisted Perez in this training program and clinic work. The health needs of the Haitian cane workers are staggering. Dr. Perez and these new volunteer promoters are beginning to alleviate some of these needs.

INDIA

P. Vinutha Kumari, left, directs The Luke Society's community medical program among the lower caste Indians in six communities surrounding Tuni. In each of these communities there is a small body of Christians. The majority of Vinutha's time is spent in teaching community people how to prevent and treat common diseases such as this child with impetigo. Each clinic is begun with a gospel presentation.

HONDURAS

Each year The Luke Society sponsors a short-term medical mission work in conjunction with the Christian Medical Society and the Christian Reformed World Mission personnel. Through this ministry God has worked to promote physical healing and church growth. Dr. Bryn Jones will be initiating a full-time health program in September of 1983 which will provide continuity to our short-term work. We need volunteers to return to Honduras with Bryn in September to renovate a medical clinic building.

Bryn Jones family - Dr. Brynly Jones, wife Carla and children Lisa, Lori and David will be starting a new community health ministry in Catacamas, Honduras.

Dr. Larry Gerbens, ophthalmologist from Grand Rapids, Michigan, was one of the busiest participants in the medical brigade. Larry performed numerous surgical procedures and eye refractions.

The Goal Of The Luke Society Is Working At A Community Level With Direct Patient Care, Health Education, Preventive Services And The Gospel Of Jesus.

Student clerkships in medicine, dentistry and nursing are available and licensed physician coverage is needed in the United States project. Presently there is a particular need for short-term physician help in the Port Gibson clinic.

Craftsmen and general volunteers work to help individuals with housing repair, sanitation, water supply and to assist children in music, crafts, recreation and tutoring. All these activities are an effort of the body of Christ to utilize its expertise and volunteer its time to those in need.

As The Luke Society is actively engaged in providing God's healing, their thinking is open to more effective ways to integrate the gospel of Jesus Christ with their health ministry. One of the real challenges facing missions today is how to get the gospel out to more people and minister to their needs in a wholistic way in a more cost-effective manner. More must be done with less expenditure of funds.

The goal of The Luke Society is not investing its money in large capital expenditures such as hospitals or

PHILIPPINES

Dr. [illegible] Alonzo is confronted in each clinic with numerous patients having tuberculosis such as this girl with glandular tuberculosis of the neck. The Luke Society's work now includes three physicians and has expanded to two islands. Eighty Christian Filipinos have been trained as health promoters and are volunteering their services in over thirty communities.

Ervin Smidt, Artesia, CA, Peter Boelens, D.D.S., Three Rivers, MI, Al Neumeister, R.N., Sanibel, FL, Ken Herwerden, R.N., Lynden, WA, Arnold Vander Ark, Grand Rapids, MI, Wrede Vogel, M.D., Omaha, NE, Larry Van Wiel, M.D., Des Moines, [illegible] and Lorraine Kenter, R.N., [illegible], MI, took this unseaworthy dugout to visit Gary Schipper's mission work on the island of Ambatu.

Dr. Jon Cowan, anesthesiologist from Grand Rapids, traveled to Honduras for the past three years. The Lion's Club of Choluteca honored Jon for his assistance to the community.

Pam Tuinstra, R.N. from Willmar, Minnesota, changes the dressing on a patient with an infected burn. Christian Reformed missionary Shirley Wind, gives assistance.

ECUADOR

Karen Westra, Luke Society nurse practitioner, and daughter Stephanie get right down to the level of the Quichua Indians. The Quichua Christians, numbering 40,000, have invited Karen and her husband, Phil, an agronomist, to help them better their lives in health and agriculture. The Westra's have seen phenomenal growth in their work in just two years. The following is a typical story related by the Indians: "Last year twelve children died from measles or whooping cough. Our community buried four babies who had diarrhea. Three women died in child birth." As in most third world countries, the mothers and infants in the Andes Mountains of Ecuador face malnutrition, disease and complications during childbirth. These are often due to ignorance and could be prevented. For this reason Karen is going into eight communities to hold health classes. You are encouraged to read the fall "Luke Society News" which will feature this ministry.

REHOBOTH

The Luke Society funds the [illegible] Program at Rehoboth Christian Hospital. [illegible] (left) and [illegible] have a real challenge and opportunity as merger plans proceed between McKinley General Hospital and Rehoboth Christian Hospital. The Board of McKinley General Hospital has opened the door to establishing a [illegible] Program at their facility. Pray for wisdom and guidance as they seek to establish this program.

MISSISSIPPI: A Relevant Ministry in our Society Today

equipment, but it is working at a community level with direct patient care, health education, preventive services and the gospel of Jesus Christ. Christian volunteers locally and from across the United States are mobilized to assist in these health care projects. Promotional materials such as this Banner insert are put together by volunteers. Each of the Board of Directors pays all of his own expenses. All services rendered and expenses incurred by short-term workers are completely donated.

The Luke Society is open to God's leading and wants to utilize its expertise to stimulate Christians to be God's agents for healing and leadership in a broken world. If this sort of approach excites you, let us hear from you.

MISSISSIPPI

[illegible] Smith, Betty Davis and Retha Davis take stock of the Thrift Shop merchandise. There is a real need for furniture, household items, children's clothing, washing machines, appliances, etc.

[illegible], pediatric nurse practitioner and Reformed Bible College graduate from Hudsonville, Michigan, has been working at Cary Christian Health Center for the past three years. The health clinic continues to minister to individuals outside of the mainstream of health care and functions as a catalyst to improve the health of the entire [illegible]

GOD IS OPENING DOORS IN CHINA

Through medical technology, The Luke Society has been able to enter mainland China with teaching programs at the Universities of Canton, Shanghai and Harbin. These University affiliations have provided opportunities to share the gospel of Jesus Christ.

The Luke Society has received an invitation to return to Harbin Medical College for three weeks of cardiovascular surgery this fall. Your prayers for the success of this trip are needed and appreciated.

Dr. James Joransen, associate professor of cardiology at the University of Mississippi, demonstrates a new technique in cardiac catheterization.

Dr. Peter Boelens lectures to pediatric staff at the Canton Cardiovascular Hospital.

The Hawkeye League from Northwest Iowa has been volunteering for the past seven years in Mississippi. Each year they conduct work projects and Daily Vacation Bible School in Meyersville and Rolling Fork.

the
luke society, inc

P.O. Box 871
Vicksburg, Mississippi 39180

If you would like to become personally involved in touching people in His Name, we invite your participation and support.

LUTHERAN SOCIAL SERVICES OF MICHIGAN

8131 E. JEFFERSON □ DETROIT, MICHIGAN 48214-2691 □ (313) 823-7700

July 27, 1987

The Honorable Daniel Rostenkowski, Chairman
1102 Longworth House Office Bldg
Washington, DC 20515

Dear Congressman Rostenkowski:

As important as reducing the deficit may be, the proposals of the joint committee on taxation contain many suggestions that are equally disastrous, may be more so.

Imposing a excise tax of 5% on the net investment income of religious, charitable and education organizations, allowing deductions for charitable contributions only at the 15% rate, and imposing a floor under aggregate itemized deductions equal to 10% of income over $100,000 on joint returns are definately not the way to go.

Reducing the ability of religious organizations to serve the afflicted is merely placing back on the government's shoulders the burden for picking up these services.

There is no cost efficiency here.

The services provided by religious organizations through nursing homes, residents for the aging, and the many other facilities operated are a bargain for the American taxpayer.

Reducing the ability of the religious organizations to provide these services can actually produce a calamity for the country.

I urge you to vote against these measures.

Sincerely,

Donald E. Behrens

An agency of the Michigan District, American Lutheran Church, Michigan congregations of the English Synod, Association of Evangelical Lutheran Churches, Michigan Synod, Lutheran Church in America. LSSM shares in the United Foundation of Metropolitan Detroit and the United Way, Saginaw County

LUTHERAN SOCIAL SERVICES
AGENCY MANAGEMENT · 600 West 12th Street · Sioux Falls, South Dakota 57104
Phone: 605/336-3387

MEMO

To : Representative Daniel Rostenkowski

From: Reginald J. Hansen, President
Lutheran Social Services of SD

Date: 7/27/87

I call your attention to the enclosed resolution from the Board of Directors of Lutheran Social Services of South Dakota.

The resolution is self-explanatory about the agency's position regarding some of the tax issues being addressed by the House Ways and Means Committee.

LUTHERAN SOCIAL SERVICES OF S.D.
600 West 12th Street
Sioux Falls, S D 57104

RESOLUTION

BOARD OF DIRECTORS MEETING JULY 24, 1987

WHEREAS the requests for services upon not-for-profit social service agencies are increasing at an alarming rate; and

WHEREAS public institutions and agencies are holding constant or reducing services in the social services area; and

WHEREAS the ability to pay for those services by the individuals needing the service is declining; and

WHEREAS the need for contributed income to subsidize social services is acute; and

WHEREAS any Federal tax action reducing the incentive for individuals to make charitable donations would further erode the services available; therefore

BE IT RESOLVED that the Board of Directors of Lutheran Social Services of South Dakota strongly oppose any Federal taxation changes that would remove any current incentives for individuals to make charitable donations or to tax related revenues of Not For Profit organizations. and

BE IT FURTHER RESOLVED, that the Board oppose the following proposals:

1. Place an excise tax of 5% on net investment income of all religious, charitable and educational organizations.

2. Allow deductions only at the 15% deduction rate.

3. Place a floor under aggregate itemized deductions equal to 10% of income over $100,000 on joint returns ($50,000 single). and

BE IT FINALLY RESOLVED, that this action be communicated to members of the House Ways and Means Committee and to the members of congress from the state of South Dakota.

LUTHERAN SOCIAL SERVICES OF THE NATIONAL CAPITAL AREA

July 22, 1987

Robert J. Leonard, Chief Tax Counsel
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Mr. Leonard:

It has come to our attention that the Joint Committee on Taxation has generated "revenue enhancing" proposals as part of the Budget reconciliation efforts. Two proposals affecting all non-profit organizations are of primary concern.

Social services, in the past several years, have seen dramatic increases in the flow of clients and the demand for services. Spending cuts at the Federal level and commensurate increases in total state responsibility have had the joint effect of reducing services available to the public. Therefore families and individuals have sought help from private agencies. People need food and clothing, plus there is a desparate need for housing. Additionally, services to children at risk of abuse or neglect have been severely strained.

To now impose an excise tax on net investment income would be to reduce the only stable, non fluctuating source of income available to non-profits. The proposal to curtail the level of itemized deductions for charitable donations may have the effect of reducing the level of giving to an agency. Without full access to endowment funds and lowered donation rates, the only source left to social service non-profits is contract money through local and federal sources.

We would be pleased to present additional information and hope you will give serious consideration to the adverse impact of thse tax proposals on non-profit social service agencies.

Sincerely,

Wendy Whiting Blome

Wendy Whiting Blome, ACSW
Director
Family and Children's Services

lh

5121 Colorado Avenue, N.W.
Washington, D.C. 20011
Tel. (202) 829-7640

United Way Building ☐ 451 River Street ☐ P.O. Box 4029 ☐ Chattanooga, Tennessee 37405 ☐ 615/265-0514

METROPOLITAN COUNCIL FOR COMMUNITY SERVICES, INC.

July 17, 1987

The Honorable Daniel Rostenkowski
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Representative Rostenkowski:

I am writing as Chairman of the Public Policy Committee of the Metropolitan Council. This Committee is composed of representatives of many sectors of our community, such as business, labor, civic groups, government and non-profit human service organizations, and the legal and higher educational professions. The primary concern of the Committee is the public policy enviornment, as it affects the delivery of essential social services to the Greater Chattanooga area.

The Committee wishes to register its strong objection to the newly advanced Congressional staff options paper on possible new taxes. The proposals advanced in the paper further diminish the present incentives for charitable giving, which have already been drastically curtailed by the withdrawal of charitable deductions for non-itemizers. This proposal affects all areas of charitable giving, both high and low income givers, as well as corporations. And finally, the paper recommends consideration of an excise tax on the net investment income of tax-exempt organizations, which rely on citizen giving for their existance.

The ramifications of these staff suggestions are clear. It appears to the Public Policy Committee that, while the federal government has assured the American Public that the voluntary sector will provide the safety net for needed social services, it is, on the other hand, gradually withdrawing all of the encouragement it has traditionally given to tax payers to voluntarily support these needed services. The limits to which the voluntary sector can compensate for diminishing government funding for these services are finite. If incentives for charitable giving are further eroded, the services which aid the poorest citizens in our country, will be irrevocably damaged.

The Public Policy Committee urges you to give through consideration to this dangerous trend and to exercise your influence to reverse it.

Very truly yours,

Alva D. Fields

Alva D. Fields, Chairman

Middlesex County
Chamber of Commerce

July 27, 1987

Honorable Dan Rostenkowski
Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Rostenkowski:

On behalf of the many organizations which contribute to the excellent quality of life residents of Connecticut and other areas enjoy, I would like to oppose various options being considered by the House tax writing panel.

Recent cut-backs in government grants and giving programs have severely affected non-profit organizations throughout the country. They must now rely heavily on the generosity of their members and supporters. These contributors have shouldered the deficit created by the removal of governmental supports, often increasing their contributions to meet specific needs.

To eliminate incentives which permit donations to non-profit organizations will sound a death knell for many of them at a time when the government has already removed traditional support programs. This would adversely effect the quality of life which we have come to value in our country, leaving us facing a dearth in the intellectual, arts and theater communities.

Therefore on behalf of the members of the Middlesex County Chamber of Commerce, with more than 846 members employing over 37,500 people, I urge you and the House Ways and Means Committee to leave intact such tax programs which affect endowment income and individual itemized deductions affecting the non-profit sector.

Sincerely,

Larry McHugh
President

LM:bet

cc: Honorable Barbara Kennelly
Honorable Sam Gejdenson
Senator Christopher Dodd
Senator Lowell Weicker

70 College Street, Middletown, Connecticut 06457 • Tel. (203) 347-6924

3745 Queens Road
Chattanooga, TN 37416
August 3, 1987

The Hon. Daniel Rostenkowski, Chairman
House Ways And Means Committee
U. S. House of Representatives
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman:

As a member of the Board of Directors of Moccasin Bend Girl Scout Council, I am alarmed by the tax considerations in the Joint Committee On Taxation Staff Option Paper dated June 25, 1987.

I agree that the federal budget deficit must be brought under control but not at the expense of tax exempt service organizations such as ours. After you have cut unnecessary spending and then some additional from each agency budget, if you still have not reached your goal, have the courage to provide for the additional taxes. Do not try to avoid a tax increase by severely penalizing the financial programs of tax exempt service organizations such as ours that are providing such a worthy service for people throughout our nation.

Of course there are many tax exempt organizations that do not deserve it and I support the withdrawal of their tax exempt status. But, do not penalize all of us because there many that are not deserving.

Very truly yours,

Charles E. Collins

WHITNEY McKENDREE MOORE
128 KNAPP STREET
STAMFORD, CONNECTICUT 06907

August 4, 1987

To Whom It May Concern:

Please take a moment to envision the following (albeit unlikely) scenario:

- Longworth House can not be repaired for the next fiscal year.
- Your office staff must be cut immediately.
- Emerging needs of your constituents must be ignored for the time being.
- Your campaign for re-election fails to raise the funding it needs.

But Washington is hardly a non-profit organization (indeed, it might be more aptly described as the "UN-profit sector"). Therefore, such scenarios are wholly improbable, highly unlikely, and will not so much as near its portals.

Not so for the non-profits which experience such scenarios all the time. Especially lately. First came the budget cutbacks. Next the repeal of the Charitable Contributions. Then the AMT. Now something euphemistically referred to as "revenue generating options."

> Question: From whence shall come these newfound revenues?
> Answer: In part, apparently, from charitable gifts.
>
> Question: And who shall receive these newfound revenues?
> Answer: The un-profit sector, of course!

If my name were Oliver North, I would have thought of it myself.

Sincerely,

Whitney McKendree Moore

Whitney McKendree Moore
(Mrs. Barry G.)

Johnson Controls, Inc.
Automotive Systems Group
Hoover Automotive Division
2730 West Main Street
Jefferson City, MO 65101
Tel. 314/893 4443

JOHNSON
CONTROLS

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means
1102 Longworth House Building
Washington, DC 20515

July 20, 1987

Dear Representative Rostenkowski:

Several options for new taxes are being considered by the House Ways and Means Committee. Among these options is a 50% reduction in charitable deductions for itemizers and a 5% excise tax on net investment income of non-profit, exempt organizations.

I urge you to vote against these options and any proposal that could hinder charities' abilities to raise funds.

The impact of the new tax changes on voluntary organizations, along with government cutbacks, has placed a tremendous strain on the United Way and its member agencies. The Jefferson City Area United Way provides needed services to many of the poor and underprivileged of Central Missouri.

I urge the committee rule against these tax change options. Your help in this matter is greatly appreciated.

Sincerely,

JOHNSON CONTROLS, INC.

Alan C Mumby

Alan C. Mumby
Plant Manager

ja

NORTH HUDSON COMMUNITY ACTION CORPORATION
507 - 26TH. STREET • UNION CITY, NEW JERSEY 07087-3798

ROBERT TORRANCE
President
MICHAEL A. LEGGIERO
Executive Director

TELEPHONE
201 - 866-2255

August 4, 1987

Rep. Daniel Rostenkowski, Chairman
House Ways & Means Committee
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Re: Joint Committee On Taxation
Staff Options Paper
(Charitable Deductions)

Dear Rep. Rostenkowski:

It is our understanding that the Ways & Means Committee will soon act upon staff options developed by the Joint Committee on Taxation. These proposals contain suggestions harmful to all tax exempt organizations by, in effect, reducing contributions up to 50% while imposing a 5% excise tax on the net investment income of all such organizations.

The Tax Reform Act of 1986 already imposed a 15% annual contribution reduction - some $11 Billion - by changes affecting non-itemizers. An additional $8 to $9 Billion loss annually would result from these new proposals which now address those tax-payers who itemize. Specifically, the limitation of allowable itemized deductions to a 15% tax rate, or 50% of the current maximum tax rate, is projected to produce a contribution reduction of $6.2 Billion alone.

In addition, the establishment of a floor of 10% of one's gross adjusted income for higher income tax payers likewise reduction contribution potential.

Over the last six (6) years, non-profit organizations have experienced funding reductions while demand for services has increased due to economic conditions and withdrawal of services by governmental agencies. It is essential that nothing be done to further reduce tax exempt organization's revenue generating abilities through tax law changes. If this is not done, the result will be a social services crisis for our nation.

Please do all you can to prevent the adoption of the proposed changes in our tax structure.

Thank you for your assistance.

Very truly yours,

Michael A. Leggiero
Executive Directore

MAL/ap
c: Ann T. Dudsak, NHCAC Deputy Director
Barbara Phaire, NHCAC Planner
CAPEDA, Trenton,
NACAA, Washington
NCAF, Washington
Julio Laboy,
NPR Coalition

NORWEGIAN
AMERICAN
HOSPITAL

1044 N. Francisco Ave
Chicago, IL 60622
312/278-8800

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Pablo Zalduendo, M.D.

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William Leyhe
Stanley M. Sorensen

PRESIDENT
Michael H. Sussman

August 7, 1987

Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

I understand that there is a proposal in the House Ways and Means Committee that, if successful, would impose a 5% excise tax on the net investment income of all tax exempt organizations. I understand that there is also a proposal that would limit the deductibility of itemized deductions (including charitable contributions) to 15%. Both of these proposals would be detrimental to the health care industry as they would present an additional financial burden on top of the existing problems being faced due to cutbacks primarily in the Medicare and Medicaid programs.

I am, therefore, asking that you carefully consider the negative impact to the health care industry should these proposals be successful. I would be pleased to discuss these issues with you, should you feel the need to do so. Thank you.

Sincerely,

Michael H. Sussman
President and Chief Executive Officer

MHS:ed

OLD TOWN SCHOOL OF FOLK MUSIC
909 WEST ARMITAGE AVENUE, CHICAGO, ILLINOIS 60614 - PHONE 525-7793
AMERICA'S FIRST PERMANENT SCHOOL IN THE STUDY OF FOLK MUSIC AND FOLK INSTRUMENTS
FOUNDED 1957 - Win Stracke, Frank Hamilton, Gertrude Soltker, Dawn Greening
EXECUTIVE DIRECTOR - Jim Hirsch

10 August 1987

Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

I am writing to add my support to the letter you received from the Illinois Arts Alliance regarding the proposed tax-raising options now under discussion by the House Ways and Means Committee. As the Executive Director of this country's oldest folk music institution--that is located in Chicago--I can vouch for how difficult it is for not-for-profits to survive in the present environment of "Reaganism".

Please protect the survivability of the arts in our community. We are probably one of the reasons that the City of Chicago is a nice place to live.

Thanks for your support.

Sincerely,

Jim Hirsch
Executive Director

Presbyterian Children's Home & Service Agency
Jerry R. Tompkins, President
Agency Administrative Office: 8000 Centre Park Drive, Suite 300 • Austin, Texas 78754 • 512/339-8888

July 30, 1987

Congressman Daniel Rostenkowski, Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Congressman Rostenkowski:

This is to urge your opposition to any taxes on charitable donations and an excise tax on "net investment income" of 501 nonprofits.

I cannot believe that the American people want to siphon off dollars from those agencies helping the needy and those involved in educational, religious, and cultural endeavors. One of the greatest aspects of our American society is the great variety of creative and innovative volunteer efforts and services provided by the non-profit organizations.

Having served as chair person of many of these organizations and as Executive Director of a couple, I know first hand how much effort has to be put forward to secure volunteer donations and how diligently these dollars are put to work to help those who need services that governments cannot or do not provide.

Perhaps there are misuses of the nonprofit status by a few but I urge that these few instances of negligence not place new impediments in the paths of the many. I do not feel that some of the efforts of late by the small business associations are valid in attacking the whole category of nonprofit organizations. They have found a scapegoat and it`s very threatening.

Again, I urge your support for the thousands of nonprofit organizations doing a credible service with incredibly limited resources.

Sincerely,
Rose Lancaster
Rose Lancaster
Director of Program Development

Presbyterian Children's Home & Service Agency

Jerry R. Tompkins, President
Agency Administrative Office: 8000 Centre Park Drive, Suite 300 • Austin, Texas 78754 • 512/339-8888

August 3, 1987

Congressman Daniel Rostenkowski, Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Congressman Rostenkowski:

It has been called to my attention that the House Ways and Means Committee is considering several proposals which would both penalize donors of charitable contributions and would place an excise tax on net investment income of 501 nonprofits.

Along with our Board of Trustees, I find this totally unacceptable. In a time of economic difficulties, the nonprofit organizations are already feeling difficult times in raising voluntary contributions. This is in addition to the increasing demands resulting from the down swing of governmental funding initiated at the beginning of this decade. As President of a statewide agency that has served children and families for over eighty years, it is very difficult for me to understand how the Ways and Means Committee could give serious consideration to these proposals.

I urge your active opposition to these and other proposals that would further dilute the capabilities of the American people to support charitable services in our country and the nonprofits to provide these services.

Sincerely,

Jerry R. Tompkins

Jerry R. Tompkins, President

• Presbyterian Children's Home, P.O. Box 100, Itasca, TX 76055
• Family Services Center, 400 S. Zang, #1210, Dallas, TX 75208
• Nuestra Casa, P.O. Box 12510, San Antonio, TX 78212
• Su Casa de Esperanza, P.O. Box 1333, Pharr, TX 78577

MICHAEL PAUL PRICE
CHESTER CONNECTICUT 06412

July 17, 1987

Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
U. S. House of Representatives
Washington, D. C. 20515

Dear Representative Rostenkowski:

As a Connecticut citizen involved with and associated with the arts, I believe that it is extremely important that funding for the arts is not further jeopardized by additional changes in the tax laws. I am particularly opposed to three measures.

My first concern is the proposal of a 5% excise tax on the net investment income of all tax-exempt organizations. I am sure that you realize that this proposal would effectively reduce the benefit of endowment, investment, and pension funds necessary for the successful operation of non-profit arts organizations.

I am also troubled by the proposal to lower the rate for itemized deductions to 15% for those in the 28% tax bracket. Most arts organizations, particularly non-profit organizations, rely upon individual gifts by private donors. If this proposed law were implemented, non-profit organizations would be apt to lose much of their badly needed and irreplaceable private funding.

In addition, imposition of a floor equal to 10% of an individual's adjusted gross income for his itemized deduction would greatly reduce the incentive of major donors to give. The arts heavily depend upon such donors for financial support.

Since the Federal Government has already reduced financial aid to the arts, individual donors remain the lifeline of non-profit arts organizations and cultural activities. To totally eliminate funding for the arts by imposing more stringent regulations would be tantamount to turning this country into a cultural wasteland. I think that you should investigate other ways of closing the federal deficit, rather than settling on such a tremendous sacrifice. The arts are a reflection of our heritage and our future. Please give serious consideration to the long term effects of your proposals before effectively eliminating funding for non-profit arts organizations.

Thank you in advance for your help.

Sincerely,

Michael P. Price

Puertorriquenos Asociados
for
Community Organization, Inc.
P. A. C. O.

TEL. 963-8282

392 GROVE STREET
JERSEY CITY, N. J. 07302

ELIU RIVERA
EXECUTIVE DIRECTOR

Primitivo Valle
CHAIRPERSON

July 23, 1987

The Honorable Dan Rostenkowski
Chairman
Ways and Means Committee
1102 Longworth House Office Bldg.
U.S. House of Representatives

Dear Mr. Chairman:

During the past six years, non-profit organizations have faced reductions in federal funds, increased responsibility and demands for providing social services, and greater difficulties in obtaining charitable contributions. The changes in in the Tax Reform Act of 1986 alone, cause an impact of $11 billion or 15% in annual contributions.

Now, the Joint Committee on Taxation staff proposes further changes that could cost us another $8-9 Billion a year. The proposal to allow itemized deductions only against the 15% tax rate alone, would reduce charitable donations by $6.7 billion.

These proposals would have a negative effect on our capacity to fulfill our public service mandate. We ask you to reject any changes to the tax laws that would further reduce our income generating ability.

Sincerely,

Julio E. Colon
Julio E. Colon
Assistant Director

cc:Frank J. Guarini
Eliu Rivera-Executive Director
Primitivo Valle-Chairman
Julio Laboy

1 Hellam Drive
Mechanicsburg, Pa. 17055
August 14, 1987.

Hon. Daniel Rostenkowski
Ch., House Ways & Means Committee
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Congressman Rostenkowski:

I am writing to voice opposition to the Staff Paper On Possible New Taxes which contains suggestions to reduce by 50% the charitable deduction for itemizers; 5% excise tax on nonprofit organizations; and additional provisions diminishing tax incentives. Charities are experiencing increasing difficulty in financing worthwhile endeavors and these proposals, if enacted, would be very burdensome.

I serve on the board of a children's home. The home shelters children with severe problems created by parents or other emotional problems. In addition to providing the necessities of life, the home provides counseling and support with the goal of having the children be prepared for a "normal" life. Hopefully, our goals are being achieved.

The cost for professional services is high and the church and governmental support does not nearly cover the total. Therefore, we depend for the balance on contributions. If this source were curtailed, the financial crisis would be extreme.

Thank you for your interest.

Very truly yours,

Paul S. Roeder

saint francis hospital 355 ridge avenue evanston, illinois 60202 312/492-6170

August 11, 1987

Honorable Dan Rostenkowski
Chairman House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

As the House Ways and Means Committee considers options for increasing revenues, I urge that you preserve the individual donor's incentive to make charitable contributions. Several of the options under consideration would seriously jeopardize a not-for-profit organization's ability to attract gifts.

Specifically, it would be detrimental to limit deductibility to 15% for persons in the 25% tax bracket and to impose a floor of 10% of Adjusted Gross Income above $100,000 ($50,000 for a single taxpayer) on total itemized deductions.

In addition, the option to impose a 5% excise tax on net investment income of tax exempt organiztions would also greatly impair that organization's ability to provide service.

At Saint Francis Hospital of Evanston, more than $2.5 million in care to the indigent is provided annually. This amount is made possible in part by $1.3 million in contributions and the interest on investment income.

As hospitals strive to hold costs in line, it is the charitable contribution and investment income which maintain the margin of excellence health care institutions can continue to offer.

I strongly urge that you keep in mind the importance of both these items when looking at the options.

Sincerely,

James R. Stack
Vice President
Community Relations and Development

JRS:dl

HILL
&
BARLOW
ONE INTERNATIONAL PLACE
BOSTON · MASSACHUSETTS 02110
TELEX 94 0946 TELECOPIER 439 3580
TELEPHONE (617) 439-3555

August 14, 1987

Congressman Daniel Rostenkowski
House Ways & Means Committee
1102 Longwood House Office Building
Washington, DC 20515

Congressional Staff Options Paper Affecting Non-Profit or Organizations

Dear Congressman Rostenkowski:

I write as Chairman of the Greater Boston Advisory Board of the Salvation Army, for which I act in a volunteer capacity. The proposal set forth in the Congressional Staff Options with respect to a possible new 5% excise tax on non-profit organizations, a 50% reduction in charitable deduction for itemizers, and other limitations on itemized deductions would severely cripple the work which is increasingly being thrust upon the private sector in the absence of Governmental willingness to help those of our citizens who are in desperate need of the most elemental human services.

Please, if Government can't or won't help the most needy of our citizens, do not cripple and frustrate the efforts of fellow citizens to provide assistance.

The services of non-profit organizations have taken on more than their fair share of the burden of Federal budget cuts and reductions in income from reduced tax incentives to contribute to charity. Please, either do the job yourselves, or help us do the job. I urge that these Staff Options be discarded.

Sincerely yours,

Jonathan Strong

Jonathan Strong

stro/BQ5

cc: Lt.Col. Donald Seiler
Divisional Commander,
The Salvation Army
147 Berkeley Street
Boston, MA 02116

Congressman Brian Donnelly

EVA BURROWS
GENERAL

LT COLONEL M. LEE HICKAM
DIVISIONAL COMMANDER

The Salvation Army
(FOUNDED 1865)
WILLIAM BOOTH, FOUNDER

COMMISSIONER ROBERT RIGHTMIRE
TERRITORIAL COMMANDER

CORPS COMMUNITY CENTER
900 JEFFERSON STREET • P.O. BOX 55
JEFFERSON CITY, MISSOURI 65102
(314) 635-1975

CAPTAIN STEPHEN L. KIGER
COMMANDING OFFICER

Monday,
July 20, 1987

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means
1102 Longworth House Building
Washington, D.C. 20515

Dear Mr. Rostenkowski:

RE CONGRESSIONAL STAFF OPTIONS PAPER
POSSIBLE NEW TAXES

Last year the charitable deduction for non-itemizers was eliminated. Any further limitations on human service agencies' abilities to raise money combined with government cutbacks may do irreparable damage to the vital work of the private sector. We urge you to please help to establish a mandate against reduction of the capacity of voluntary, non-profits to fulfill their public service. Taxing exempt non-profits and thereby hindering their abilities to sustain themselves cannot be in the public best interest.

Thank you for your consideration in this most urgent matter.

Sincerely,

Stephen L. Kiger
Captain

WILLIAM BOOTH
FOUNDER

EVA BURROWS
GENERAL

FOUNDED 1865

STANLEY E. DITMER
TERRITORIAL COMMANDER

RAYMOND L. WOOD
DIVISIONAL COMMANDER

THE SALVATION ARMY
(INCORPORATED)

736 WEST MAIN STREET
LEXINGTON, KENTUCKY 40508-2096
TELEPHONE (606) 252-7706
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Women's Auxiliary President

August 7, 1987

Daniel Rostenkowski
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski:

Having just become informed about the staff options on possible new taxes relating to non-profit organizations, I wish to register our unequivocal opposition to any proposals that further reduce the capacity of voluntary groups to fulfill their public service.

Specifically, we oppose the items affecting tax incentives related to charitable contributions and other income to non-profit organizations in the June 25, 1987 Joint Committee on Taxation Staff Options Paper listed below:

	Revenue Reduction	**Item**
1.	$-6,700,000,000	Limiting the charitable deduction for itemizers to the 15% rate;
2.	$ -346,000,000	Imposing a floor under aggregate itemized deduction (including charitable deductions for higher income taxpayers);
3.	$ -42,000,000	Reducing individual and corporate tax preferences for charitable deductions 10%;
4.	$ -221,000,000	Increasing the alternative minimum tax (AMT) from 21% to 25%;
5.	$-1,000,000,000	Imposing an excise tax on net investment income of exempt organizations.
	$-8,687,000,000	

Given the recent history of federal government withdrawing its support of the non-profit sector, we find the current proposals unacceptable as they deal an inequitable share of the burden of tax reform to tax-free organizations such as The Salvation Army.

Thank you for your consideration of our viewpoint. We urge you to oppose these staff options.

Regards,

David H. Bowles
Director of Business Administration

WILLIAM BOOTH
FOUNDER

EVA BURROWS
GENERAL

FOUNDED 1865

THE SALVATION ARMY
(INCORPORATED)

MALDEN CORPS
213 MAIN STREET
MALDEN, MASS. 02148
TELEPHONE (617) 324-1970

STANLEY DITMER
TERRITORIAL COMMANDER

DONALD SEILER
DIVISIONAL COMMANDER

House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

August 25, 1987

Dear Committee Members:

This letter is written on behalf of the Advisory Board members of The Mystic Valley Corps Community Center in Malden Massachusetts. We would like to address a "staff option" which would allow for a revised Tax Policy for agencies with Tax Exempt status.

While we realize that this proposal is only an option we are aware that most tax legislation begins as a "staff option". This proposed Tax Reform would have a devastating effect on The Salvation Army's ongoing program. In addition we understand that there will also be a 50% reduction in Charitable Deductions for Itemizers.

We would like to go on record as stating that such Tax Reforms would seriously affect the existing programs in our community. We strongly oppose any new legislation which places such a great demand on agencies who have already been affected by Federal Budget cuts.

In the words of Brian O'Connell "Enough is Enough". This Tax Reform would be contrary to the underlying concept of tax-free deductions. We trust that this letter clearly indicates our position should this matter reach the legislative stage.

Thank you for your consideration of this matter.

Sincerely,

Harry B. Coholan

Harry B. Coholan
Advisory Board Chairman
The Salvation Army

HBC/bd

EVA BURROWS
General

ROBERT RIGHTMIRE
Territorial Commander

The Salvation Army
FOUNDED IN 1865 BY WILLIAM BOOTH
136 East Washington Street
P.O. Box 337
Shelbyville, Indiana 46176
(317) 398-7421

LT. ~~COL. M. LEE HICKAM~~
Divisional Commander

CAPTAIN & ~~MRS. DONALD MEYER~~
Corps Officers

August 25, 1987

Daniel Rostenkowski, Chairman
House Ways and Means Committee
1102 Longworth House Office Bldg., 2111 RHOB
Washington, D. C. 20515

Dear Chairman Rostenkowski:

Recent proposals for a 50% reduction in charitable deductions for itemizers and 5% excise tax on non-profit organizations would ultimately prove to be a true disservice to the people of this country.

The recent abuse of the non-profit status of some organizations is disheartening. These isolated instances, however, when put within the context of the entire non-profit sector is drawfed in comparison to the abuses of other service entities. The fact that the non-profit sector is the most responsible and effective use of money received is well documented. To tax non-profit organizations is, in effect, double taxation. The donor is taxed on his personal earnings, then his donated money, as proposed, would be taxed again! It is obvious that these proposals will discourage the donations we depend upon to operate.

This past year The Salvation Army here in Shelbyville serviced over 900 families with food, shelter, clothing and other necessities, with a total budget which is less than the personal incomes of the legislators who advocate the aforementioned proposals. My wife and I are on call 24 hours a day to meet the emergencies of the people in our area, but our annual salary is less than $8,500.00. It is obvious that we are not in this business to make money.

If this proposed legislation is passed, the work of the Salvation Army here in Shelbyville will be greatly hampered.

We are trying to use the money we receive as efficiently as possible and for the purposes for which it is intended. Please do not assume that organizations like ours can absorb the costs that will result from the proposed legislations. Without your help to stop these proposals, we will simply not be able to continue.

Please find another means of supporting the government rather than draining the resources of the effective but financially struggling non-profit organizations.

Sincerely yours,

Lt. Steven A. Smith

San Fernando Valley Child Guidance Clinic
A Non-Profit Public Benefit Corporation

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Gerald M. Goldenstern

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Robert L. Oldham, M.D.

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August 4, 1987

Hon. Daniel Rostenkowski, Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Rostenkowski:

We are writing to express our extreme concern over a Joint Committee Report which suggests imposing a 5% excise tax on net investment income of all tax exempt organizations and cutting charitable deduction for itemizers by up to 50%. This and other proposals affecting charitable giving could take $8-9 billion annually out of the non-profit human services delivery system.

Non-profit organizations have already carried more than their fair share of federal budget cuts and income reductions due to reduced tax incentives. Our case loads have increased as federally supported services have decreased and at the same time direct financial support to non-profits has been reduced by billions of dollars since 1982. Then along came the Tax Reform Act of 1986 which eliminated the charitable deduction for nonitemizers. This is expected to reduce charitable giving by approximately $11 billion or 15%.

To further undermine our financial support by imposing an excise tax and eroding incentives to charitable giving is unfair and unreasonable. We are already overburdened and underfunded. We urge you to oppose this mean spirited concept and to hold firmly to a determinaton to do nothing that further reduces the financial base of the non-profit human services delivery system.

Thank you for your considerastion.

Sincerely yours,

David T. Stewart
Board Chair

Charles Drescher
President

9650 Zelzah Avenue, Northridge, CA 91325
Family Stress Center: 7347 Van Nuys Blvd., Van Nuys, CA
(818) 993-9311
(Please direct mail to Northridge address)

Milton Salkind, President

1201 Ortega Street
San Francisco
California 94122

Telephone
(415) 564-8086

San Francisco Conservatory of Music

July 23, 1987

Honorable Dan Rostenkowski, Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski,

I am alarmed to see that there are several new tax options before the House Ways and Means Committee that could have serious effects on earned and contributed income for not-for-profit organizations such as the San Francisco Conservatory of Music.

Frankly, it feels as if not-for-profit organizations are again being put in a financial squeeze. On the one hand, an excise tax is being considered on endowment earnings, often the only truly stable income source for not-for-profit organizations. On the other hand, the lowering of the rate for itemized deductions and the imposition of a new floor on those deductions (both concepts under consideration by the committee) would make it more difficult to get contributions. Please vote against these proposals.

Not-for-profit organizations must be able to continually increase earned and contributed income in order to meet the needs of their growing constituencies. Shrinking the federal budget deficit is obviously of vital importance, but the not-for-profit sector has over the past decade done more than its share in this effort, through budget cuts at almost all governmental levels and through changes already made to the tax code affecting contributions.

The measures proposed would hurt organizations like the Conservatory, which contributes not only to our present quality of life, but also helps guarantee the continuation of an American musical tradition. Our gifted students must have the proper training to become the orchestra players, opera singers, chamber musicians, soloists, conductors, accompanists, and composers of tomorrow.

Please bear all this in mind when discussing ways to increase federal revenues. Thank you for your consideration, and for your support of our nation's cultural heritage.

Very sincerely,

Nancy E. Quinn
Director of Annual Giving

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SCHLESSMAN FAMILY FOUNDATION, INC.
1500 GRANT STREET
SUITE 400
DENVER, COLORADO 80203

TELEPHONE (303) 861-8080

September 1, 1987

The Honorable Daniel Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D. C. 20515

Re: June 25, 1987 Joint Committee on Tax Staff Opinion Paper

Dear Representative Rostenkowski:

Congress recently made necessary cutbacks in aid to social services in an effort to help balance the Federal budget. Thus, the responsibility for providing these services falls to non-profit institutions and foundation.

Therefore, it is inconceivable that Congress proposes to further tax these non-profit organizations and curtail their abilities to raise funds. It has become increasingly difficult to obtain donations in light of the new Tax Reform Bill without further intervention from Congress and the Federal Government.

Please vote against those proposals which affect charitable giving and the imposition of the 5% Excise Tax on net investment income of tax-exempt organizations. Give us the opportunity to accomplish the job we have set out to do.

Sincerely yours,

Lee E Schlessman

Lee E. Schlessman, President

TRUSTEES:
LEE E. SCHLESSMAN
FLORENCE M. SCHLESSMAN
SUSAN M. DUNCAN

SHIRLEY EVES CENTER
10th & Vine Streets • 136 N. High Street • P.O. Box 787 • Millville N.J. 08332-0787
(609) 825-5840, 825-9109
United Cerebral Palsy of Cumberland County

Child Evaluation Center
Early Intervention Program
Outpatient Rehabilitation Services
High Risk Follow Up
Neglect and Abuse Prevention
Summer Recreation
Jersey Devils
Toy Library
Communication Gap
Self Advocacy
Personal Attendant Service
Community Living

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Charlotte Humphries
Special Child Health Services

July 30, 1987

The Honorable Daniel Rostenkowski
House Ways and Means Committee
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Representative Rostenkowski:

The FY 1988 Budget requires Congress to determine tax increases totalling over $64 billion in the next three years to meet the deficit targets. Many of the options under discussion will have a negative impact on volunteer organizations like UCP of Cumberland County.

Of the many options under discussion, four will adversely affect volunteer organization's service delivery: (1) charitable deductions for itemizers could be deducted only at a 15% rate instead of higher tax rates; (2) the imposition of a ceiling under aggregate itemized deductions for higher income taxpayers; (3) a 5% excise tax on the investment income of nonprofits including interest and dividends; and (4) a proposed increase in the alternative minimum tax (AMT) from the present rate of 21% to 25% resulting in reductions in gifts and property.

The tax reform of 1986 has already severely limited tax incentives for charitable giving and volunteerism and has made fund raising more difficult at a time when the Federal government expects the services of voluntary organizations to increase. If these proposals are implemented, the negative impact on charitable giving would be over $11 billion annually.

Please see that these tax proposals do not become law. The combination of budget and tax changes on voluntary organizations is not equitable. UCP of Cumberland County serves 500 individuals with severe disabilities and depends on charitable giving and volunteerism to operate its programs.

Thank you for your consideration of this matter.

Respectfully,
Christopher A. Barber
Christopher A. Barber
Disabled Advocate

CAB/jl

A United Way Agency, United Cerebral Palsy Associations

1900 Durango Pass Court
Ballwin, Missouri 63011
August 13, 1987

The Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
211 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Rostenkowski:

I have been advised that Congressional staff has submitted recommendations to the House Ways and Means Committee to impose excise taxes on investment income of tax-exempt organizations and to limit tax deductibility of individual contributions to charitable organizations. I feel that both of these proposals would be counterproductive and very inappropriate as means of reducing the Federal budget deficit.

On several occasions in the past years as a resident of Indiana, I have expressed my sentiments that the primary means of reducing the Federal budget deficit should be reduction of the spending side of the budget as opposed to any further tax increases. I reiterate this sentiment now as a citizen of Missouri. In my opinion, the Congress has barely scratched the surface in cutting the spending side of the budget. You and other elected representatives should spend a much larger portion of your time and efforts in cutting spending by the Federal Government. By the same token, I think it would be completely responsible and appropriate if the Congress would spend no time considering tax increases.

As I have mentioned before to elected representatives in Indiana, I think the Congress should thoroughly consider and enact recommendations of the Grace Commission which were submitted to Congress and the Administration a few years ago. I am distraught at the lack of action which has been taken on the Grace Commission's recommendations.

Your consideration of my thoughts will be appreciated.

Sincerely,

David A Smith

David A. Smith

DAS:sjd

cc: Richard Gephardt
Andrew Jacobs

SIU

Southern Illinois
University at Carbondale
Carbondale, Illinois 62901

Office of the Dean
College of Communications and Fine Arts
618-453-4308

August 5, 1987

Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Rostenkowski:

I am writing to request that you oppose some proposed tax increase options currently being considered by the House Ways and Means Committee.

It is my understanding that lowering the deductibility of itemized deductions by nearly 50 percent for taxpayers in the 28 percent bracket, imposition of a new floor equal to 10 percent of an individual's adjusted gross income in excess of $50,000, and the application of a 5 percent excise tax on net investment income of all tax exempt organizations are being considered by the Committee and may eventually emerge in one form or another to be considered by the House.

Should these changes become law, they would constitute a significant detriment to funding for the arts and other charitable causes. In recent years, the arts community has taken serious cuts in public funding. The enactment of legislation restricting incentives for giving would make it even more difficult to make up these losses through contributions from the private sector.

Thank you for your consideration of this request.

Sincerely,

Keith R. Sanders

Keith R. Sanders
Dean

dgj

John A.Speicher
2401 Kewanee Way
Okemos, MI 48864

August 1, 1987

Honorable Daniel Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Rostenkowski:

I have recently learned that the House Ways and Means Committee is considering a proposel to cut by up to 50% charitable deductions for itemizers, a 5% excise tax to be imposed on the net investment income of all charitable organizations, as well as other provisions that would diminish tax incentives for charitable contributions. I am saddened at the apparent determination by Congress to restrict the resources that the nonprofit field needs to provide vital programs to children and families.

Our country faces increased poverty, young people in crisis, families in jeopardy, and continued deterioration of moral values. The private nonprofit sector has been and is reponding to these great needs. Implementing restrictive legislstion and placing taxes on nonprofit organizations is not the way to balance the federal budget. If the private sector is restricted in its ability to help meet the increasing needs of children and families, the cost to society will be greater in the future.

You are being asked maintain a determination not to cripple the nonprofit organizations in their quest to help.

Sincerely,

John A. Speicher

John A. Speicher

Arlin E. Ness, ACSW
President

THE STARR COMMONWEALTH SCHOOLS
Albion, Michigan • Van Wert, Ohio • Columbus, Ohio

July 27, 1987

Honorable Daniel Rostenkowski, Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Rostenkowski:

I was extremely alarmed and very disappointed to learn that the House Ways and Means Committee is considering a proposal to cut by up to 50% charitable deductions for itemizers, a 5% excise tax to be imposed on the net investment income of all charitable organizations, as well as other provisions that would diminish tax incentives for charitable contributions. It is amazing to me how Congress continues to restrict the resources that the nonprofit field needs to provide vital programs to children and families in the United States.

Over the past six years our country has seen a dramatic increase in poverty, young people in crises, and families in jeopardy, with the private nonprofit sector having to respond to the great need as governmental programs were eliminated. While you may hear stories of one charity or another whose resources are not being fully utilized for the purposes for which they are provided, these organizations are few in number compared with the many throughout the United States trying to meet the daily needs of our society. Implementing restrictive legislation and placing taxes on nonprofit organizations is not the way to balance the federal budget. Common sense tells you that if the private sector is restricted in its ability to help meet the increasing needs of children and families, the cost to society will be much greater in the future.

I implore you to establish a principle and a determination not to do anything further to reduce the capacity of nonprofit organizations to fulfill their public service.

Sincerely,

Arlin E. Ness

Arlin E. Ness, President

AEN:db

Starr Commonwealth Road, Albion, Michigan 49224 (517) 629-5591
Founded in 1913 by Floyd Starr

THEATREWORKSUSA
PART Foundation

Theatreworks/USA
131 West 86th Street
New York, NY 10024
(212) 595-7500

Jay Harnick
Artistic Director

Charles Hull
Managing Director

July 16, 1987

Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rostenkowski

As a part of the non-profit arts community in New York, I feel it is important to communicate to you my reaction to certain tax options up for consideration before the Ways and Means Committee this month. Several of these measures would clearly discourage individual charitable giving, as well as cut directly into the funds of the organization itself. Combined, these new tax options, if passed, will imperil the financial security of non-profit organizations, many of which are centered around the arts and social services. Please know that while I understand the pressing need to close the federal deficit, I strongly oppose burdening the non-profit institutions of this country in acheiving that end. I urge you to remember my words when the the tax options I discussed come up for examination.

Sincerely,

Charles Hull
Managing Director

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united cerebral palsy association of missouri

125 West Dunklin St. Suite 35 / Jefferson City, MO 65101 / 314-636-5334

August 6, 1987

Daniel Rostenkowski, Chairman
Rayburn House Office Building
#2111
Washington, DC 20515

Dear Representative Rostenkowski,

The FY 1988 Budget requires Congress to determine tax increases totalling over $64 billion in the next three years to meet the deficit targets. Many of the options under discussion will have a negative impact on volunteer organzations like United Cerebral Palsy of Missouri.

Of the many options under discussion, four will adversely affect volunteer organization's service delivery: 1) charitable deductions for itemizers could be deducted only at a 15% rate instead of higher tax rates; 2) the imposition of a ceiling under aggregate itemized deductions for higher income taxpayers 3) a 5% excise tax on the investment income of nonprofits including interest and dividends; and 4) a proposed increase in the alternative minimum tax (AMT) from the present rate of 21% to 25% resulting in reductions in gifts and property.

The tax reform of 1986 has already greatly limited tax incentives for charitable giving and volunteerism. This has made fund raising more difficult at a time when Federal government expects the services of voluntary organizations to increase. Competition for the private sector dollars is already difficult without this added on to it. If these proposals are implemented, the negative impact on charitable giving would be over $11 billion annually.

We must assure that these tax proposals do not become law The combination of budget and tax changes on voluntary organizations is not equitable. In the state of Missouri we estimate that there are 17,000 citizens with cerebral palsy, alone. United Cerebral Palsy of Missouri and its affiliates depends on charitable giving and volunteerism to operate its programs.

Thank you for your consideration of this matter.

Sincerely,

Joyce Wardenburg

Joyce Wardenburg
Executive Director

JW/11

UNITED METHODIST
Youthville
INC.
CENTRAL OFFICES AT 900 W. BDWY. 316-283-1950
BOX 210 • NEWTON, KANSAS 67114

July 28, 1987

Daniel Rostenkowski, Chairman
HOUSE WAYS AND MEANS COMMITTEE
2111 Rayburn House Office Building
Washington D.C. 20515

Dear Mr. Rostenkowski:

What is a child worth? Some say, "a child is our most precious possession." Do you agree?

Our United Methodist Childcare agencies/institutions work with the "hurt and hardluck" children, youth and families. Our goal is to reunite the family as a viable family nurturing center. Our good record over the years is stark evidence of a fine level of success.

Why this letter?

1. You have a United Methodist Children's facility in your state existing to a large extent from donations:

   Methodist Youth Services, Inc.
   120 South Ashland Avenue, Suite 250
   Chicago 60607

   United Methodist Children's Home
   2023 Richview Road
   Mt. Vernon 62865

   The Baby Fold
   108 East Willow Street
   Normal 61761

   Lake Bluff//Chicago Homes for Children
   1661 N. Northwest Highway
   Park Ridge 60068

   Chaddock School
   205 South 24th Street
   Quincy 62301

Rosecrance Memorial Homes for Children
P. O. Box 5123
Rockford 61125

Cunningham Children's Home
Box 190, 1301 N. Cunningham Avenue
Urbana 61801.

2. We understand several bills are pending which would truly hurt economically hurt private childcare agencies, including those in your state. These, we've been informed, would include a:
50% reduction in charitable deduction for itemization,
5% excise tax on non-profit organizations,
Other provisions that would diminish tax incentives for charitable contributions.

My appeal to you is: please help our children grow up to be economic assets rather than knock them down by returning them to situations leading toward our penitentiaries or state hospitals and economic dependence on state funds.

Please make sure bills are not passed which will deter our efforts to raise funds essential for meeting our children's needs.

Thanks.

Sincerely,

Robert H. Whitfield

ROBERT H. WHITFIELD
Executive Director

RHW:jm

United Way Community Services
22 Light Street/P.O. Box 1576,
Baltimore, Maryland 21203
(301) 547-8000

August 28, 1987

The Honorable Daniel Rostenkowski
Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Rostenkowski:

As President of United Way Community Services' Board of Directors, I am writing to express our alarm at the "revenue increase" options formulated by staff to the Joint Committee on Taxation. Each of these options, we feel, is punitive toward nonprofit charitable organizations and call upon our sector to shoulder an unjustifiable share of the tax burden.

Our primary concerns are with the proposed changes in the charitable deduction for itemizers and the imposition of a 5 percent excise tax on all net investment income of nonprofit organizations.

In the first instance, our feeling is that if the deduction for itemizers is reduced, Congress will have effectively voided whatever partnership remains between the public and voluntary sectors. We are being stripped, in a gradual yet steady manner, of our ability to successfully raise dollars to fund programs and services to benefit people. If government is bent on decreasing its own direct involvement in service provision, at least let it not render it an almost impossible task for us to even maintain ours.

With respect to the 5 percent excise tax, you should know that all of the net investment income of United Way Community Services is placed into our General Fund Balance, with no specific designation. Traditionally, these dollars are used for a variety of purposes, all of which relate to United Way's mission to increase the organized capacity of people to care for one another. In FY1986, these dollars funded a conference on Acquired Immune Deficiency Syndrome devoted to educating human service professionals regarding this deadly illness, a United Way Agencies' retreat for Executive Directors whose purpose was to identify, discuss and strategize around human and social service funding and charitable giving issues, and a subsequent meeting with the agencies' Board Presidents to communicate these issues further. These dollars are also used to respond to any emergency situations which may arise in terms of our agencies. In each example I've relayed here, our role as a community problem-solver is highlighted. Net investment income plays a key part in enabling United Way to act in this capacity.

In FY1987, United Way Community Services' net investment income totaled approximately $601,000. A 5 percent tax on that amount would be about $30,000 -- dollars which could continue to enhance our responsiveness to our community's problems.

Our plans for these dollars for the coming year already include establishment of a literacy tutorial program and continued special meetings among our network of agencies.

We, frankly, fail to recognize any merit in Congress considering these proposals. On behalf of United Way Community Services Board of Directors, I strongly urge that you not support these revenue increase options which limit our ability to serve our community.

Sincerely,

Albert Homiak

Albert Homiak
President
Board of Directors

United Way
of Clarksville - Montgomery County
1300 Madison Street
Clarksville, Tennessee 37040
Phone: (615) 647-4291

DATE: July 20, 1987

TO: House Ways and Means Committee

FROM: Patricia W. Pile, Executive Director PWP
United Way of Clarksville-Montgomery County

RE: Congressional Staff Options Paper on Possible New Taxes.

The staff options pertaining to charitable deductions and tax preference items continue a trend of inequity in tax impacts on voluntary organizations.

We feel strongly that the increased demand on services of not-for-profit agencies in our community is directly linked to governmental budget cuts for social services. As we were marshalling forces to attempt to answer these increased requests, along came knock-out punch #2, the elimination of charitable deductions for non-itemizers. And now we feel that the latest options presented are "too much."

We cannot expect private charitable giving to increase at significant rates just as eroding tax benefits make charitable giving less attractive for many.

Please look at other options for tax increases instead of agencies already at a frustration level because they are having to turn away needy cases and eliminate vital programs.

PWP:pr

United Way
OF ILLINOIS

125 South Clark Street
Chicago, Illinois 60603-4012
(312) 580-2870

520 South Second Street
Springfield, Illinois 62701
(217) 753-8891

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United Way of Streatorland
Tri-Cities Area United Way
United Way of Warren County
United Way of Will County

July 22, 1987

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
2111 RHOB
Washington, D.C. 20515

Subject: Regarding United Way of Illinois' concern with the June 25, 1987 Joint Committee on Taxation Staff Report: "Description of Possible Options to Increase Revenues Prepared for the Committee on Ways and Means."

Dear Congressman Rostenkowski:

The United Way of Illinois, representing more than 150 local United Ways including the United Way of Chicago and the United Way/Crusade of Mercy, read with grave concern several of the options described in this report. Many of the staff options would reduce and impair the necessary resources needed to support the vital work of charitable organizations.

Charitable contributions, while substantial in composite, are not maintaining pace with the cost of living, government reductions and increasing needs of families and individuals.

Following the passage of the 1986 tax laws an overwhelming percentage of American taxpayers will be using the short form in 1987. This same law eliminated the opportunity for the short form user to deduct charitable contributions. In addition, federal cutbacks since 1982 have annually diminished the state capacity to serve people. Governor Thompson this week vetoed over $370 million dollars from the Illinois budget passed June 30. The effect of these vetoes will cut no less than eight percent across the board in all human service programs provided by state government to needy family and individuals in Illinois. Many of these state program reductions will force people in greater numbers to seek services from the voluntary sector. Prior to these vetoes Illinois, with a population of 11.5 million, had over one million on welfare and over 500,000 unemployed.

Considering the realities and the domestic sector implications of what we face as a nation, it seems gravely one-sided, inconsistent and possibly irresponsible for the House Ways and Means Committee to give serious consideration to those staff recommendations in the report which would reduce the charitable deduction for itemizers, impose a five percent excise tax on net investment income of non-profit organizations and any other recommendation which diminishes incentive for charitable giving or threatens charitable resources.

The United Way of Illinois looks forward to hearing your views concerning these serious matters.

Sincerely,

John P. Walsh
Executive Vice President

United Way
Jefferson City Area

213 Adams St.
Jefferson City, MO 65101
314/636-4100

July 23, 1987

The Honorable Daniel Rostenkowski
Chairman, House Ways and Means
2111 Rayburn House Building
Washington, D.C. 20515

Dear Mr. Rostenkowski,

I want to alert you to tax change options currently being considered by the House Ways and Means Committee which could severly diminish tax incentives for charitable contributions or erode non-profit, human service agencies' ability to provide essential public services.

Specifically, I refer to a suggestion that would reduce the charitable deduction for itemizers and an alternative which advocates that nonprofit human service organizations be taxed on net investment income. I urge you to oppose these options. Any proposal which would undermine charities' ability to raise funds does not serve the public interest.

Within the last few years the non-profit, human service sector has shared its burden of tax reform and budget reduction. The impact of these budget and tax changes on voluntary organizations, coupled with the government's shifting of its service load to the private sector has placed tremendous strains on United Way and its member agencies.

Any further limitations on our ability to raise funds would not serve the public interest. Many of our agencies provide services to the most vulnerable of Mid-Missourians-the handicapped, the poor, the elderly, and the victims of abuse and disease. Across the state hundreds of thousands are annually assisted by United Way supported agencies.

I urge that the committee establish an underlying principle against such reductions early in its process.

Your position on this important issue will be pivotal. Thank you for your consideration.

Sincerely,

David Franta
Executive Director

cc: Robert J. Leonard

[Similar letter received from Kay Ferrell, Member, Board of Directors, Jefferson City Area United Way.]

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SOCIETY

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Music Director

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MICHAEL SCOLAMIERO
Executive Director

P.O. Box 211
Moorestown, NJ
08057
(609) 778-1899

August 11, 1987

The Honorable Dan Rostenkowski
House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

I understand that the House Ways and Means Committee is considering several options to increase taxes and close the budget deficit that will impact negatively on non-profit arts arts organizations such as the West Jersey Chamber Music Society. These options include:

1. Applying a 5 percent excise tax on endowment, investment, and pension monies.
2. Lowering, for individuals in the 28 percent tax bracket, the rate for itemized deductions to 15 percent.
3. Reduce the ability of high income taxpayers to claim itemized deductions for charitable contributions by imposing a new floor.

Certainly the budget deficit must be drastically reduced. However, arts organizations are already experiencing cuts in funding from the National Endowment for the Arts and therefore need to increase support from the private sector. The aforementioned options will reduce the support we receive from individuals, and diminish the effectiveness of tax endowments and investments.

While we all must make sacrifices if the deficit is to be erased, non-profits seem to be bearing more than their fair share. I urge you to seek other alternatives that will do less damage to non-profit, charitable organizations.

Sincerely,

Michael Scolamiero

Michael Scolamiero
Executive Director

MS/jcv

encls.

WILLIAMS COLLEGE WILLIAMSTOWN, MASSACHUSETTS 01267

OFFICE OF THE PRESIDENT

24 July 1987

The Honorable Dan Rostenkowski
Chair, House Ways and Means Committee
2111 Rayburn House Office Building
Washington, DC 20515

Dear Representative Rostenkowski:

I write to express my concern about two of the revenue options which may be considered by the House Ways and Means Committee: taxation of endowment income and applicability of FICA to student wages.

Both of these options would have a significant impact on institutions of higher education. For example, we estimate that a 5% excise tax on investment income, capital gains, rents and royalties minus expenses at Williams would amount to approximately $1.5 million, or the equivalent of an endowed fund for a full professorship or the fund which would add significantly to the library collections or an endowment fund for financial aid. The college share of the amount which would be contributed towards FICA based on student wages would be approximately $50,000, or the equivalent of 10 average grants-in-aid to needy students or a piece of much-needed laboratory equipment. In other words, Williams and other colleges would have to defer or cancel the purchase of equipment or books, reduce the numbers of students on aid, or make some other significant adjustment to their budgets in the hope that tuition would not need to be raised. (I might point out that Secretary Bennett's assumption that colleges and universities raise tuition carelessly and in response to avilability of federal aid is without merit.)

I hope that this information and opinion will be of help to you during your very difficult and time-consuming discussions. With much appreciation for your consideration,

Sincerely,

Francis Oakley

FO:gar
cc:Senator Edward M. Kennedy
Senator John F. Kerry
Representative Silvio O. Conte

WOMEN'S
TECHNICAL
INSTITUTE

August 4, 1987

Representative Daniel Rostenkowski
Chairman
House Ways and Means Committee
2111 Rayburn House Office Building
U.S. House of Representatives
Washington, DC 20515

Dear Representative Rostenkowski:

I am writing in my capacity as the Director of the Women's Technical Institute (WTI), the nation's first and only technical school for women. WTI plays a special role in expanding employment opportunities for Massachusetts women of diverse ages, races, and backgrounds. WTI is an eleven year old licensed, accedited, nonprofit school with an annual budget of one million dollars. The deleterious effect the Staff Paper on Possible New Taxes will have on our school prompts this letter.

WTI opposes the Reduction in Charitable Deductions for Itemizers. This provision will haveO a devastating effect on our school's ability to increase support from individuals. Because of recent cuts in federal financial aid and JTPA funding, WTI has been working to expand our base of individual supporters to offset these cuts. The proposed reduction for itemizers would be a serious disincentive to individuals considering contributing to our school.

The 5% Excise Tax on investment income further hampers our financial viability. We are a school with no endowment. Thus, our only way to build a financial cushion or start an endowment is through investing cash reserves. Removing that option -- even in a small way -- makes the financial well-being of nonprofit organizations even more problematic than it already is.

As Congress enacts provisions which continue to chip away at the funding sources of institutions such as WTI, it is inevitable that the quality and quantity of these services will suffer. With the present administration offering our school little encouragement for federal monies, it is imperative that we build alternative avenues for support. Fewer and fewer options remain for raising the funds needed to continue our work. The students we serve are the people most affected, as funds for scholarships, new equipment and curricula, and teacher salaries will inevitabley be affected by shrinking financial resources.

I urge you to consider the concerns of our organization and numerous other nonprofits when you contemplate enactment of these laws. They represent a threat to the stability of our school for low income people.

Sincerely,

Sharyn Bahn

Sharyn Bahn
Executive Director

SB/bd

1255 Boylston Street
Boston, Massachusetts 02215
Telephone (617) 266-2243

YALE UNIVERSITY ART GALLERY

Chapel Street at York Mail: 2006 Yale Station New Haven Connecticut 06520
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July 13, 1987

Representative Dan Rostenkowski
Chairman, The House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Dan Rostenkowski:

I am appealing to your deeper sympathies for the quality of our culture and its preservation. The Ways and Means Committee is now considering revisions to the 1986 tax bill with an eye to increasing federal revenues. As a long-standing member of the museum community, I have been asked to write to you about three proposals.

First is the application of a 5% excise tax on net investment of tax-exempt organizations. Maybe this sounds fair..it does to me at first blush. Why should not the endowment of the Yale Art Gallery be asked to yield a small amount for the federal government? Leaving aside matters of precedent and erosion, I would argue that we educational institutions are scrambling for every cent we can. Unfortunately we spend an increasing amount of our time trying to fund rather than implement our programs, care for our collections, and render a vast range of public services. To dock our income only means that you are diverting our efforts even further from the vital roles we play for the good of the entire country.

Second, you might propose to lower the rate from 28% to 15% on itemized deductions. That would be tantamount to wiping out almost entirely much of the incentive for making donations of funds and property. It would effect a monumental change in the structure of American generosity and would be a disaster for us. It would signal, furthermore, that the U.S. Government does not encourage private sector giving.

Third, the imposition of a floor for itemized deductions is even worse. The true abuses are not in the donations of money and property to museums and universities. I have served on the IRS and know that there are an huge number of schemes and shelters that keep money from the federal coffers. To rectify this by extracting it from the deductions for charitable contributions is to flay the institutions that try to uphold the standards of culture, education, and intellectual morality for all Americans.

As I said, I am sympathetic with the need felt by the Congress to balance our federal budget. But I do not think that lacerating the most important cultural institutions in this country is the route to travel. I and my colleagues ask you to ponder the above proposals carefully. Thank you very much indeed.

Yours sincerely,

Richard S. Field

Richard S. Field
Associate Director and
Curator of Prints, Drawings, and Photographs

YWCA
MOVING AND GROWING

112 Oak Street
Ridgewood
New Jersey 07450
201-444-5600

August 12, 1987

Representative Daniel Rostenkowski
House Ways & Means Committee
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Representative Rostenkowski:

We have learned that the House of Represertatives is considering the following new tax options that would gravely effect non-profit community service organizations such as the YWCA:

- -a 50% reduction in the charitable deduction for itemizers
- -5% Excise tax on investment income of non-profits
- -other changes in deductions for charitable contributions.

Federal budget cuts have already increased the case load of non-profits providing critical human services, while federal funds for these services have been cut. Changes in the tax law regarding charitable deductions make it more difficult to fund raise. Enough is Enough! Non-profits have taken on more than our fair share. Please do not support any measures that would increase the burden on non-profits.

Sincerely,

Patricia L. Yankus
President
YWCA Board of Directors

Ann L. Swenson
YWCA Executive Director

PLY:ALS:bl

THE YWCA IMPERATIVE: TO ELIMINATE RACISM
A United Way Agency

YWCA of Roanoke Valley
Women Empowered—A Force for the Future

August 12, 1987

The Honorable Daniel Rostenkowski, Chairman
House Ways and Means Committee
1102 Longworth House Office Building
2111 RHOB
Washington, D.C.   20515

Dear Congressman Rostenkowski:

As a non-profit organization, the YWCA of Roanoke Valley is deeply concerned about some of the proposed new taxes.

Enough is enough! Non-profit organizations have taken more than their fair share of the burden of Federal budget cuts and reductions in income from reduced tax incentives to contribute to charity.

Please consider this in your deliberations. We are struggling to keep our heads above water already. If our income is further reduced due to new tax changes, agencies, such as ours, would be put in jeopardy.

Sincerely,

Audrey M. Wheaton
Audrey M. Wheaton
Membership/Advocacy Director

AMW:ctg

YWCA
605 First Street, S.W. • Roanoke, VA 24011 • 1-703-345-YWCA

YWCA

YWCA of the City of New York
640 Lexington Avenue
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(212) 755-4500

August 20, 1987

Daniel Rostenkowski
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Rostenkowski:

As Advocacy Director of the YWCA of the City of New York, I strongly urge you to oppose any new taxes or regulations which would diminish ability to raise money for important programs to serve women in New York City.

Services of non-profit organizations have taken more than their fair share of the burden of federal budget cuts and reductions in income from reduced tax incentives to contribute to charity -- "enough is enough"!

We trust that you will support our position in the matter, and would like to thank you in advance for your consideration to the issue.

Sincerely,

Linda Nessel

Linda Nessel
Advocacy Director

LN:dlr

19th CONGRESSIONAL DISTRICT, N.Y. • BRONX AND YONKERS

TESTIMONY IN SUPPORT OF A NATIONAL LOTTERY

PRESENTED BY THE HONORABLE MARIO BIAGGI OF NEW YORK

BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS

ON JULY 15, 1987

Mr. Chairman, I welcome this opportunity to testify in support of a proven and painless revenue-raiser, a national lottery. I first authored legislation to establish a national lottery in 1985, and I reintroduced that bill (H.R. 83) earlier this year.

Mr. Chairman, the purpose of these hearings is to determine viable options to raise federal revenues by $19.3 billion in Fiscal Year 1988, and by a total of $64.3 billion over the next three fiscal years. I am here to offer evidence that a national lottery could raise very close to those amounts, and without a single penny of increased taxes to the American taxpayer. Unlike most of the other proposals considered by this Committee to raise revenues, a national lottery is a totally painless form of deficit reduction. Simply put, I believe it is an idea whose time has come.

Under my bill, all persons aged 18 and over would be able to buy national lottery tickets at $1 each. Prizes would be awarded monthly. A full 75 percent of all revenues generated under the national lottery would be earmarked to reduce the principal on the Federal deficit. Twenty percent would be reserved for prizes, and the remaining 5 percent would cover administrative costs.

Projected revenues raised by a national lottery range anywhere from about $12 billion to as much as $18 billion a year. In those states where lotteries have been the most successful, revenue per capita has exceeded $1 a week. Economist Alfred Tella has predicted that a national lottery would produce gross revenues of approximately $12.3 billion a year (based on 1984 state lottery figures).

According to a study conducted at my request by the Economics Division of the Congressional Research Service, if those Americans eligible to participate in my proposed national lottery each bought just nine $1 tickets per month for a year, the Federal Government would raise more than $18 billion. How often do we have the chance, Mr. Chairman, to raise $18 billion for the Federal Government, without hiking taxes or by making draconian cuts in vital government programs? The answer, I am sure we all agree, is seldom, if ever.

The best reason to think that a national lottery is worth conducting is the great success lotteries have enjoyed as revenue-raisers at the state level. Consider, for example, that preliminary figures recently released by the U.S. Census Bureau show that gross state lottery revenues totaled more than $11 billion in Fiscal Year 1986, with states netting nearly $5 billion. In fact, as observed by the June 26 issue of Governors' Weekly Bulletin, "total net revenue raised by currently operating state lotteries in a year is greater than the amount raised each year by the cigarette and alcohol excise taxes in all 50 states."

Significantly, these figures are rapidly rising. Over the past two years, state lottery revenues have almost doubled and that rapid growth is expected to continue. As a result of this growing success, more and more states are turning to lotteries to raise much needed revenues. Currently, 27 states and the District of Columbia have their own lotteries, and a number of other states are moving in that direction.

For our purposes here today, I believe it is particularly significant that multi-state lotteries appear to be the wave of the future. Maine, Vermont and New Hampshire have already formed a Tri-State Lotto system, and each state--which had been conducting separate lotteries prior to that--more than doubled their lottery revenues in the first year of operation. In addition, there is a proposed eight-state lotto in the works. The reason for these multi-state lotteries is simple. They create bigger jackpots, which attract more interest and generate more sales. It seems obvious that the states must know something that we at the federal level should learn. If multi-state lotteries are such an appealing idea, the potential for a national lottery is even greater.

Mr. Chairman, I want to emphasize that the national lottery I have proposed is not designed to replace state lotteries. In fact, there is specific language in the bill clarifying that states are not required to participate in the national lottery. However, if this does become a prohibitive concern, I would suggest that there is an alternative solution. If a national lottery is not to be, for whatever reason, I would suggest that we consider establishing a federal tax on state lottery revenues. Let me clarify that I am not referring to an additional tax on individual lottery winners, but rather a tax on the lottery revenues collected by the states. For example, a 10 percent tax on current state lottery revenues of more than $11 billion would raise more than $1.1 billion for the Federal Government. It's not the full $19.3 billion we need to raise for Fiscal Year 1988, but it could be an important part of the solution. The states would not have to compete with a national lottery, yet the Federal Government would be able to benefit from the success of lotteries nationwide. The idea of a federal tax on state lottery revenues seems particularly appropriate in the case of multi-state lotteries.

But, let me reiterate, Mr. Chairman, that my preference is the establishment of a national lottery, and I am not alone. A Gallup Poll has found that 62 percent of those surveyed supported the idea of a national lottery. Further, a Congressional Research Service study conducted at my request stated that "worldwide precedents exist for an American national lottery. Sixty-four countries, with a total of 90 lotteries, are members of the 28-year old International Association of Government Lotteries (IAGL), headquartered in Montreal." The study specifically mentioned France and Spain as examples of countries that hold national lotteries.

In fact, the idea of a national lottery in the United States dates back to 1776. According to the CRS study, "Historically, the United States has also experimented with such lotteries. There was one in the colonial era and another in the early 19th century. In 1776, the Continental Congress approved a lottery to raise $10 million to finance the Revolution. One million tickets were to be sold at prices ranging from

$10 to $40, and prizes ranged from $20 to $50,000. This lottery was subsequently abandoned, when it was realized that the majority of less than 4 million persons accounted for at that time could not afford the minimum $10 ticket and the 'wealthier ones who were Tories had no desire to aid the rebellion.'"

Mr. Chairman, I am confident that we would have much better success with a national lottery today. For one thing, we have years of experience at the state level to build from. Secondly, and perhaps more importantly, the national lottery tickets I have proposed would sell for a mere $1. Let's face it, how many items have decreased in price by 900 percent over the last 200 years? I would suggest a national lottery is a can't miss proposition and I am hopeful your Committee will give the idea favorable consideration.

[illegible]
Wed Jul 1 14:17:[illegible] 1987

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July 1, 1987

COMMITTEE ON
RECEIVED
JUL 2 1987
WAYS AND MEANS

Robert J. Leonard, Esq.
Chief Counsel
Ways & Means
1102 Longworth
Washington, D.C. 20515

Dear Sir:

I would like to confirm my conversation today with Ms. Harriett Lawler, concerning my interest in participating in the Committee's upcoming hearings on July 7-9 on alternative revenue measures.

If such participation is not possible, I would nevertheless like to submit written comments in the form of the attached article. The article presents a proposal which has been under development for over four years. I presented it by invitation to the Senate Finance Committee last year and, last April, to the Department of Commerce, Office of Productivity, Technology and Innovation.

The proposed Federal Par User's Fee would be a comprehensive, low-rate clearance fee on noncash transfers of funds. It would be collected automatically pursuant to monthly bank statements sent to customers, just like existing private "user fees" levied by banks on ATMs, checks and wire transfers.

The fee would raise up to $50 billion over five years, and is intended as an alternative to the potentially regressive VAT or excise taxes. Because the levy is in the nature of a "user fee," it sidesteps the political minefield surrounding new taxes.

Should you be interested in obtaining additional background on this topic, individuals familiar with it include Senator Bob Packwood and Dr. D. Bruce Merrifield, Ass't Secretary, Department of Commerce. I should also mention that, if invited, I would be presenting the proposal as an individual, without extraneous ties to any lobbying group or other organization.

Sincerely,

John A. Newman

enclosure.

tax notes

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TAX ANALYSTS SPECIAL REPORT

THE FEDERAL PAR USER'S FEE

by John A. Newman

John A. Newman practices tax and computer law with Reed Smith Shaw & McClay in Pittsburgh. This article does not necessarily reflect the views of Reed Smith, any of its clients, or any other group or organization. This proposal, under development for over four years, is an updated account of a similar article published in Tax Notes on October 14, 1985, p. 191. That version was presented by invitation to the Senate Finance Committee last April 21st. This latest version incorporates additional research and focuses directly on the immediate political and economic priorities of the 100th Congress in addressing the trade and budget deficits.

The proposed Federal Par User's Fee would impose a comprehensive, low-rate automated clearance fee on transfers of funds. The general theory of broad-based transfer fees is gaining ground politically, as evidenced by House Speaker Wright's recent proposal for a stock transfer tax. The stock transfer tax does pursue a correct theoretical direction, but falls short of its potential by targeting an unnecessarily narrow revenue base. The narrow base requires a high rate to raise the desired revenue, creating serious potential for disruption of the capital markets. To illustrate the difference in magnitude of the revenue bases, if the breadth of the stock transfer tax were one inch, the revenue base of the Federal Par User's Fee would exceed 10 feet.

Pursuing a truly broad base, the Par Fee would raise substantial revenue at a rate equal to the amount one could earn by investing the transferred funds for a few hours. This spreads the burden evenhandedly throughout the economy, without impinging on the securities industry, pension funds, or any other particular group. And unlike other alternatives, the Par Fee would be administered through a new procedural mechanism to provide the United States a competitive advantage in the difficult effort to coordinate fiscal and monetary policy in a rapidly changing world economy.

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I. Introduction

This country's trade and budget positions are fundamentally out of balance. For every 80 cents of revenue raised, we spend one dollar; for every three shipments of goods exported, we import five. The recent shift of power in the United States Senate increases the potential for confrontation as a protectionist-minded Congress focuses its attention on these twin deficits.

Clearly, it is in the nation's interest to avoid a protracted and unproductive effort to meet the 1988 deficit reduction target and to regain a competitive position in world markets without igniting a global trade war. The Administration must act quickly both to consolidate its gains over the past six years—particularly with respect to the scheduled reductions in marginal income tax rates—and to seize the initiative on the trade and budget fronts by offering concrete alternatives for raising revenue and diffusing protectionist sentiment in Congress.

This proposal for a Federal "Par" User's fee would help meet the immediate 1988 budget target, while creating a new tool for coordinating fiscal and monetary policy to compete more effectively in a rapidly changing world economy. The following section describes briefly the major features of this proposal, with a final section discussing how this concept could help combat the trade deficit.

II. Explanation

A. General Concept

The Federal "Par" User's Fee would be a comprehensive, low-rate automated clearance fee levied on virtually all noncash payments through the economy, similar in operation to private clearance fees charged by so-called "nonpar" banks a century ago. The Fee would penetrate deeply into the fabric of the economy, coexist with the lowest possible profile and, most importantly, raise considerable amounts of revenue.

B. Revenue Raising Potential

The proposal's potential as a revenue raiser is a function of the size of the revenue base and the effective rate of the Fee.

1. The Revenue Base. The proposal would capture the largest revenue base imaginable, roughly $220 trillion per year. The Fee would be imposed on virtually all noncash transfers of money through the economy, whether by check, electronic wire transfer, or newly developed computerized teller machines and point of sale terminals. Cash transfers are excluded because the revenue derived from cash transactions would not justify the administrative cost or inconvenience to citizens. There would also be a special exemption for certain large overnight loans, to prevent disruption of the financial markets.

The Administration must act quickly . . . to [protect] . . . the scheduled reductions in marginal income tax rates . . . .

To avoid multiplicity of Fees, a single "transfer" would include any intermediate transfers in the bank clearance process necessary to move funds from the originator to the destination account. This "exemption" for intermediate transfers is easily administered, by focusing on monthly bank statements of the parties in determining imposition of the Fee. In addition, there would be no exemption or distinction based on the identity of the account owner. Implicit in this feature is the potential for Fees when a single individual owning two accounts transfers funds from one account to the other. Rather than exempt situations in which a person, in effect, transfers funds to himself, it would seem more prudent to build flexibility into the system by encouraging the continued development of flexible accounts offering various investment options.

In the case of flexible accounts (such as those offered by an investment fund permitting an investor to shift among various portfolio options) changes in the method of computing earnings on the account would be exempt from the Fee on the theory that there has been no transfer of funds between two "accounts." For these purposes, then, an "account" would be defined as a discrete and identifiable ownership interest in funds deposited or invested with a financial institution, regardless of how any earnings on the account are computed. Thus, an investor shifting from a fixed interest rate to a variable interest rate option would be exempt, as would an investor shifting from a conservative equity portfolio to an option under which earnings are based on the performance of growth stocks. Fees would, however, be imposed if funds were transferred from one account (e.g., a money market account) to another account (e.g., an IRA account) maintained at that or any other financial institution (for a more technical explanation of definitions and operating procedures, see Addendum A).

An 'account' would be defined as a discrete and identifiable ownership interest in funds deposited or invested with a financial institution . . . .

With continued deregulation of the financial industry and a blurring of traditional definitions of "financial institutions" and "accounts," the foregoing questions should be revisited periodically. At this juncture, however, the potential for avoidance of Fees would seem fairly self-limiting, given the existing regulatory environment, the fact that an investor would indirectly pay Fees levied on a fund's underlying investment activities and, perhaps most importantly, because of the negligible rate of the Fee.

2. The Par Rate. With a revenue base of $220 trillion, considerable revenue could be raised with an almost negligible rate. At a rate of 1/200th of one percent (.00005, or one-half of one "basis point"), the Fee could raise roughly $11 billion per year or $55 billion over the five-year revenue cycle used in recent tax reform projections.

To illustrate, the Fee on a $1,000 mortgage payment would be five cents; the Fee on a $10,000 automobile purchase would be 50 cents; the Fee on a $50,000 stock market investment would be $2.50; the Fee on a $500,000 capital improvement would be $25 and on the purchase of $2 million worth of real estate, the Fee would be $100.

At this level, the Fee is equivalent to the amount of money one could earn by investing the transferred funds for a few hours. If funds are more efficiently invested, for example through advanced cash management techniques, the burden of the Fee can essentially be defrayed. The idea is that, in an economic sense, the Fee would be paid only by those who are not sufficiently bothered by it to defray its burden through better cash management. Energies would be spent trying to defray the Fee rather than trying to evade it.

This burden of one-half of one "basis point" (.00005) compares quite favorably, for example, with proposals to eliminate "daylight overdraft" (i.e., interest-free loan) privileges at the Federal Reserve, a burden four times greater than the Par Fee; the recently proposed Stock Transfer Tax (up to 100 times greater), Citibank's fee of six percent on transfers over its new wire system for consumers and small business (1,200 times greater than the Par Fee), and proposals to impose "artificial float" on electronic transfers or to expedite remote clearance of checks.

C. The Incidence of the Fee

1. Who Pays It? In the case of any payment (whether by check, wire transfer, direct deposit, point-of-sale terminal or teller machine) the Fee would be imposed on the payor and would be reflected as a transaction fee on monthly bank statements. With wire transfers not initiated through an established account, the Fee would be deducted from the face amount of the transfer unless the Fee were paid from other funds. Because the incidence of the Fee generally would be determined at remote bank locations, there would be no additional administrative burden imposed on the Federal Reserve or other clearing agent. Remittance of revenue by collecting agents to government accounts would be exempt from the Fee.

2. Shifting the Economic Burden of the Fee. Although, as noted, the government in all cases would collect its Fee directly from the payor, the *economic* burden could nevertheless easily be shifted from the payor to the payee. To shift the burden, the payor would simply reduce the face amount of the payment by the amount of the Fee. This market-driven feature would permit the economic burden to be shifted to the party who least objected, typically the one who is best able to defray the Fee through better cash management. For example, utility companies accustomed to several weeks' delay in receiving customer bill payments would have a strong incentive to accept the economic burden of the Fee for those customers paying their monthly bills by pre-authorized direct payment (for a flowchart illustrating collection of Fees on some typical transactions, see Addendum B).

D. Administrative Aspects

1. Start-Up Considerations. The Par Fee could be implemented quickly and at little cost, particularly when compared to other alternatives. The Value-Added Tax ("VAT"), for example, would take $68 million and 18 months to implement, $700 million per year to operate, and would require more than 20,000 additional IRS employees to enforce. The Par Fee, by contrast, relies on an extensive array of processing and recordkeeping machinery already in existence and, as discussed below, would be the first system to collect revenue automatically. As such, the Fee could be implemented quickly and at relatively little cost to the government or to the private sector.

Until now, revenues have always been collected the hard way....

2. Automated Collection. Until now, revenues have always been collected the hard way, through burdensome "self-assessment" or through cumbersome recordkeeping requirements imposed on business. The Par Fee, by contrast, typically would be reflected on monthly bank statements and deducted automatically from account balances. Financial institutions acting as collecting agents could be paid a collection fee of one percent of revenues collected, thus ensuring a respectable 99 percent compliance rate while providing the financial community over $100 million of additional revenue.

A primary benefit of the Par Fee to citizens and business would be the absence of any self-assessment process, eliminating the cost of maintaining additional records, preparing returns and avoiding the related anxiety of coping with complex revenue systems enforced with severe penalties. Automated collection of revenue would promote the goal of "getting government off the backs of the people" and would help alleviate a major source of friction between citizens and their government.

3. Compliance. Auditors would focus their efforts primarily on the payments mechanism to ensure that the Fee were levied at the correct rate and properly remitted. The rate of the Fee is so low that avoidance generally would not be worth the effort.

For example, a large corporation attempting to avoid the Fee by transferring cash would forfeit more than a few hours of investment opportunity on any cash transferred. And unless cash is to be kept on hand (with attendant security risks, insurance costs and foregone earnings) the Fee would be incurred upon withdrawal from the payor's bank account. In those circumstances, payment by cash would not avoid the Fee and would create additional costs to the payor.

The Fee...could prevent the economy from overheating and producing inflation.

An institution attempting to avoid the Fee by paying "in kind" would experience market risk and income tax consequences on any transfer. In either an "up" or "down" market, the payor or the payee, as the case may be, generally would be reluctant to accept payment in kind. In a down market, the payee would be reluctant to acquire depreciating assets. And in an up market, the payor would recognize taxable income on the transfer of appreciated assets (with a tax rate of 34 percent, the income tax burden from a modest 1.5 basis point gain on the transfer would exceed any burden from the Fee). Hedging transactions would only reverse, but not eliminate, the market risk of transfers in kind.

Moreover, large institutions having the greatest incentive to evade the Fee also enjoy the best position to defray it through straightforward cash management techniques. Cash management services by financial institutions would be a new growth industry for the 1990s.

4. Financial Privacy. Government audits would focus on the volume of payments between accounts, not with the purpose of the transfer or the identity of the account owners. Financial privacy, which has been threatened by the intrusiveness of the income tax, would not be placed in further jeopardy by the Par Fee.

E. Inflationary Effect

Because the Fee can be defrayed through modestly improved cash management, there is little likelihood that Fees will cascade and be translated into higher prices. As such, the Fee is distinguishable from rudimentary "turnover" taxes, such as those levied by Italy, with rates as high as four percent. The Fee also avoids the one-time inflationary jolt of a 15 percent VAT. And, as discussed below, to the extent the Fee provides a responsive tool of fiscal policy to counteract an overly stimulative monetary policy, it could prevent the economy from overheating and producing inflation.

F. Federalism and States' Rights

The VAT would pre-empt existing state sales tax schemes and run roughshod over settled jurisdictional expectations. The Par Fee, by virtue of its negligible rate and comprehensive revenue base, would not pre-empt state taxes and thus promotes states' rights and current trends in Federalism.

G. Fairness

Unlike the regressive VAT, the Par Fee would be progressive in operation for the following reasons: (i) the exclusion of cash transactions from the revenue base favors poorer individuals who rely to a greater extent on small cash transactions; (ii) while the VAT targets consumption, which levels off with wealth, the Par Fee encompasses a vastly more comprehensive revenue base; (iii) most revenue would be drawn from institutional traffic, with the potential to defray the Fee alleviating indirect inflationary pressures on the poor, and (iv) to the extent the Fee provided a new tool to combat the trade deficit, the average working family would benefit.

The United States would enjoy the rather novel role of being an international tax haven.

H. Capital Flight

If revenue from the Fee could help diffuse pressure to scuttle scheduled reductions in U.S. income tax rates, the United States would enjoy the rather novel role of being an international tax haven. The resulting inflow of capital and investment is likely to more than offset any incentive to move activities offshore to avoid the Par Fee. Moreover, as noted, the Fee would be imposed on the payor of funds, regardless of whether particular funds are destined for a domestic or foreign account. As such, there would be no direct barrier to the inflow of foreign investment to domestic payee accounts, while any capital flight from domestic payor accounts could be controlled somewhat through timely adjustment in the Fee, according to procedures set forth in Section III.B, below. Because the Fee would be imposed on the payor, the U.S. Par Fee would be readily compatible with any similar fee levied abroad on foreign payors, thus facilitating enactment of similar fees to reinforce our own.

I. The Financial Community

1. **Imposition of Fees.** Financial institutions transferring funds as a correspondent or other intermediary in the bank clearance process would not be subject to the Fee on such transfers. In those situations, the originating institution would record the payment and collect the Fee pursuant to its own monthly statement of account. To the extent a financial institution transferred funds on behalf of customers, the customers (and not the financial institution) would pay the Fee. Withdrawal of funds from a private account to initiate a wire transfer would be considered a single transfer and would, as now, be reflected as such on monthly bank statements.

To the extent financial institutions transferred funds on their own account (e.g., for their own investment) they, like other principals, would be subject to the Fee. Mutual funds initiating transfers through the trading desk of a financial institution would pay Fees on such transfers pursuant to monthly statements and either absorb the cost or pass it through to investors as an operating cost.

Overnight institutional loans, as noted, would be exempt from the Fee. On overnight transfers (i.e., an outbound and inbound transfer in nearly equivalent amounts within a single 32 hour period from and to the same account), the Fee would be initially levied on the outbound and inbound payments. The Fee on the outbound payment would be forgiven if the exemption were supported by adequate documentation; the inbound Fee would be paid by the third-party payor, with the burden shifted to the payee through a reduction in the face amount of the payment. The exemption from the inbound Fee would be implemented as a credit against future Fees, or refunded pursuant to periodic claims.

2. **Benefits to the Financial Industry.** Implementation of the Par User's Fee could provide significant immediate and long-term benefits to the financial community. First, revenue from the Fee could be used to refinance the severely undercapitalized FSLIC. A stronger FSLIC would directly promote the stability of the thrift industry. Second, revenue from the Fee also could be used to ensure adequate levels of funding for the World Bank and the International Monetary Fund to help stabilize debt-ridden third world countries. A more stable economic and political climate for those countries would directly improve the stability of large domestic money-center banks. Third, introduction of the Fee would promote the financial community's new cash management services into a major growth industry, providing financial institutions a stable, low-risk source of earnings.

Fourth, if administered in coordination with monetary policy, the Fee could help alleviate the "twin" deficits. Progress on the budget deficit would help prevent disruption of a financial community forced to finance the national debt in the face of dwindling foreign investment. Progress on the trade deficit would promote domestic growth, strengthening corporate debtors and the institutions that finance them. Fifth, in terms of political considerations, support by the financial community for the Par Fee would improve the community's lobbying position on recent initiatives to expedite remote clearance of checks, to limit credit card interest rates and to curtail "daylight overdraft" privileges on wire transfers.

The Fee could help alleviate the 'twin' [budget and trade] deficits.

Finally, as collecting agent for the Fee, the financial community could reasonably expect to receive a portion of the revenue as a collection fee. For example, with a one percent collection fee, the government would still enjoy a respectable 99 percent compliance rate and the financial community could count on a steady no-risk annual revenue stream of more than $100 million.

J. 'User Fee' Characterization

The proposal is characterized as a "user fee" primarily to take advantage of the political beach-head established by the Administration for such fees during the past year. The distinction between new taxes and new user fees derives from the concept of privatization of costs. To the extent the Par Fee compensates the government for the myriad of government programs designed to promote stability of the financial system, it might fairly be considered a user fee and could be implemented without compromising the President's pledge not to raise taxes.

There is, in fact, ample room to characterize this proposal as a "user fee" to finance greater stability of the financial system. When the Monetary Control Act of 1980 directed the Federal Reserve to begin charging for clearance services, the national debt already approached $1 trillion, reflecting in part past subsidies to the financial community. The Par Fee would help liquidate that debt.

In addition, the FSLIC needs $15 billion of immediate financing to ensure the stability of the thrift industry. Proceeds from the Fee used to ensure adequate levels of funding for the World Bank and International Monetary Fund would promote stability of debt-ridden third world countries, directly benefitting our own financial community. To the extent the Fee helped meet the 1988 deficit targets and restore the ability of local businesses to compete, there would be less strain on the financial system as a whole. Arguably, then, the connection between the Par Fee and the stability of the financial system would seem sufficiently close to justify its characterization as a "user fee."

III. The Trade Deficit

A. The Problem

The trade and budget deficits are largely the product of poor coordination between fiscal and monetary policy. During the early 1980s fiscal and monetary policy worked at cross-purposes. Fiscal policy, in the form of highly stimulative tax cuts and spending programs, produced massive structural budget deficits. The Federal Reserve reacted to this inflationary fiscal policy by tightening interest rates, producing a high dollar and massive trade deficits.

The trade and budget deficits are largely the product of poor coordination between fiscal and monetary policy.

The United States is ill-equipped to cope with today's global economy where the success of domestic policy initiatives increasingly depends on shifting policy actions abroad. Fiscal policy is incapable of responding quickly. The tax legislative process is so cumbersome that a minor technical corrections bill can take a year to pass. The budget process is equally inflexible given today's political climate, particularly if proposals for a two year budget cycle are adopted. Although changes in monetary policy can be initiated quickly, the ultimate effects of policy changes are subject to long and variable lags, prompting some economists to eschew discretionary monetary policy altogether.

The need for a responsive tool of fiscal policy is especially urgent given the Federal Reserve's recent, more aggressive posture in attempting to tame the trade deficit without re-igniting inflation. If monetary policy proves to have been too stimulative, we will lose control over interest rates (and the trade deficit) unless fiscal policy can react quickly by counteracting its excesses. Even if monetary policy is on course, a lower dollar will require coordinated action on the budget deficit to alleviate pressure on financial markets shut off from foreign credit, thus protecting low U.S. interest rates and progress on the trade deficit. As discussed below, the Par Fee could react quickly either to help curb excessive monetary policy or to help reinforce a correct course of action.

B. New Tool of Fiscal Policy

Borrowing a concept recently approved by the Supreme Court in *Bowsher v. Synar*, the Par Rate would be administered by a special Joint Committee on Fiscal Policy, with membership composed of Senate Finance Committee and House Ways and Means Committee members. The committee (the "Fisc") would meet quarterly and with input from the Federal Reserve, the Treasury and the Council of Economic Advisers through testimony at closed-door hearings would set the rate for the next quarter by joint resolution.

The joint resolution, with a mandatory no-amendment rule, would be approved by both houses and presented to the President for approval. Failure of the resolution to gain congressional approval, or a Presidential veto, would keep current rates in effect until the next meeting. This constitutionally tested procedure would revolutionize control over fiscal policy, permitting prompt, coordinated action with monetary policy to help cut the budget deficit and regain a more competitive position in world markets.

IV. Conclusion

The Federal Par User's Fee offers a unique "win-win" possibility for the Congress and the Administration. The proposal would help meet the 1988 deficit reduction target and protect scheduled tax rate reductions while sidestepping the paralyzing issue over which party is to take the initiative in proposing new taxes. It would also provide, at no cost to the Administration, a concrete alternative for the Congress to reassert itself in correcting the trade imbalance, thus helping to diffuse growing protectionist sentiment and prospects for a global trade war. In today's economy, world markets will be inherited by those who can respond most quickly to shifting opportunities and dangers. The Par User's Fee would provide the United States a competitive advantage in approaching that challenge.

ADDENDUM A

Definitions and Operational Procedures

A. Definitions

The Federal Par User's Fee would be imposed on a transfer of funds between accounts. For these purposes, the following definitions apply:

"Account" means a discrete, identifiable ownership interest in funds deposited or invested with a Financial Institution. Ownership may be identified through serial number, account number, or other unique designation.

> **Observation:** Organizations such as mutual funds or brokerage houses frequently delegate to a separate Financial Institution the responsibility for maintaining accounts, processing deposits, disbursements and other transactions, and issuing monthly statements of account to the investors. In those instances, the Account is the functional account maintained by the separate Financial Institution

through which transactions are processed and for which monthly statements are prepared.

"Financial Institution" means any entity carrying on the banking business, any mutual savings bank, savings and loan association, building and loan association, cooperative bank, credit union, money market fund, securities dealer, insurance fund or similar entity with respect to which funds may be deposited or invested.

"Transfer" means any transfer of funds between Accounts, typically reflected as a debit to the payor's Account and a credit to the payee's Account.

> **Observation:** A Transfer does not include a mere change in the manner in which earnings on an Account are determined. For example, conversion of interest paid on an Account from a fixed rate to a variable rate option is not a Transfer. Similarly, the exercise of a right to shift an earnings calculation from one representative portfolio of securities to another representative portfolio is not treated as a Transfer, so long as there is no movement of funds from the subject Account. To the extent an investment fund manages the underlying portfolio by transferring funds through its own securities trading account (maintained in-house or through a third-party institution), any movement of funds from that Account would be a Transfer subject to the Fee.

> **Observation:** A Transfer does not include the transfer of funds through correspondent banks or similar intermediaries in the clearance process necessary to move funds from the originator's Account to the destination Account. For example, a transfer of funds by one bank for the purpose of effecting a transfer over the Fedwire on behalf of another financial institution would not constitute a separate Transfer subject to the Fee. This exemption is administered by focusing on the originator and destination Account monthly statements as the touchstone for imposing the Fee.

> **Observation:** A Transfer does not include the actual remittance of collected Fees by a Financial Institution from an Account to a government revenue account, nor does it include the actual wiring of a funds transfer if initiated through (and thus reflected on the monthly statement for) an Account.

B. Certain Operational Procedures

The following procedures would be followed in determining the incidence of the Fee:

1. Checks, ATM transfers, POS, etc. In the case of transfers by check, teller machine, point of sale terminal, preauthorized telephone payments and direct deposit, the Fee would be calculated by reference to the monthly statement. The total disbursements reported on the statement would be multiplied by the amount of the Fee, rounded to the nearest penny and automatically remitted to a government collection account maintained by the Financial Institution.

2. Wire Transfers. Wire transfers initiated through the direct withdrawal of funds from the payor's account maintained by the institution initiating the wire transfer would be reflected on the payor's monthly statement as an "EFT" debit to be aggregated with other disbursements and subjected to the Fee.

Wire transfers initiated by the payor's check (drawn on the institution initiating the wire transfer or on any other institution) would be reflected on the monthly statement prepared by the drawee bank, with Fees paid by reference to that statement. The EFT transaction itself is not reflected on the monthly statement and, as such, would not be subject to another Fee.

In the case of wire transfers initiated through the presentment by the payor of a third party's check, industry practice typically requires that check to be deposited into the account of the payor, with the subsequent wire transfer initiated either through direct disbursement or via a check drawn on the payor's account. In those circumstances, the Fee would be imposed on the disbursement from the payor's account, reflected as a check or EFT transaction on the monthly statement. In situations where the third-party check for some reason was not deposited into the payor's account, the institution initiating the wire transfer would impose the Fee when the funds were wired (and if not paid from other funds, the Fee would be deducted from the face amount of the payment).

In all of the above situations, the Fee would be imposed and collected by the private-sector Financial Institution (primarily through automated monthly statements) and not by the Federal Reserve, CHIPS, or other wire service. The wire services would collect Fees only in the rare event of a "walk-up" transfer not initiated by or through any Financial Institution.

ADDENDUM B

Movement of $1,000 Through the Economy and Collection of Fees